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The MAGAZINE of WALL STREET

and BUSINESS ANALYST

AUGUST 17, 1957 — 85 CENTS

Deflation or Inflation?

COMMODITY PRICE TREND — Which?

By ROGER WALLACE

1957

Mid-Year ividend Forecasts

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HAT SECOND QUARTER EARNINGS REPORTS REVEAL «

Looking to Year-end Prospects

By HAROLD M. EDELSTEIN

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RE WILL U. S. STAND DER CANADA'S NEW DEAL?

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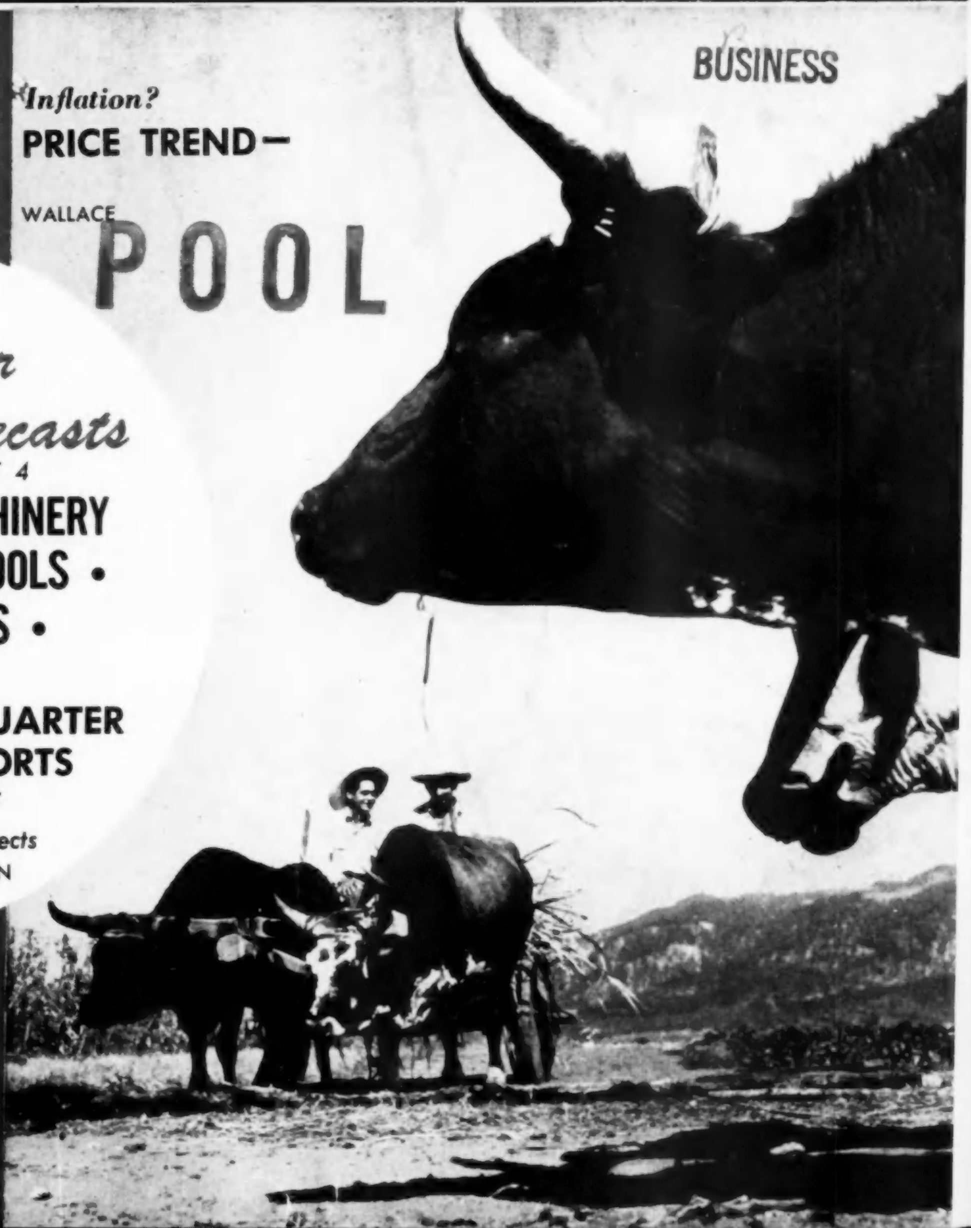
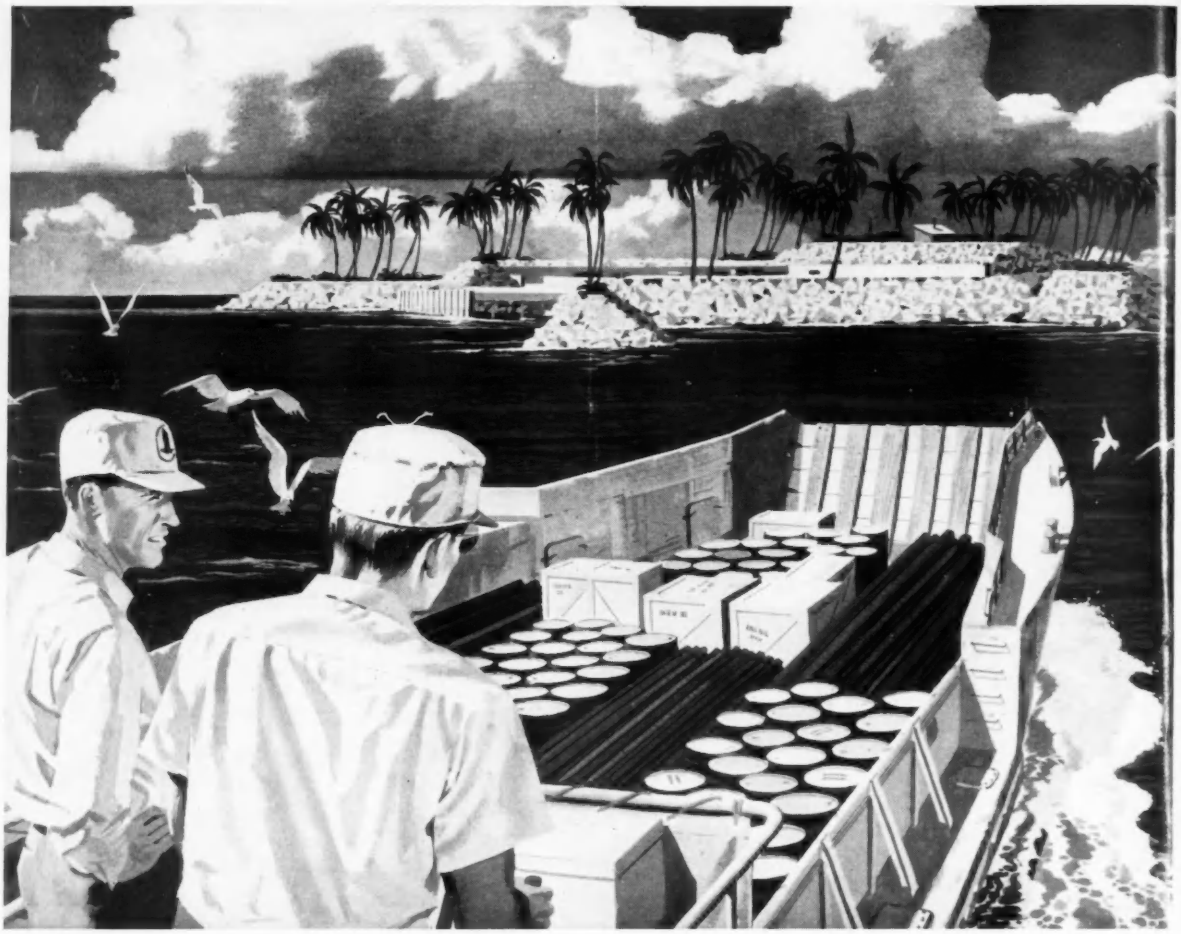
y M. L. S. BAYSWATER





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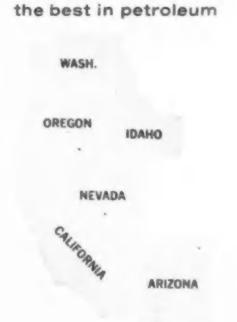

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THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Editor-Publisher*

The Trend of Events

DICTATORSHIP BY GANGSTERS . . . Two World Wars have brought terrific changes in our economy—in politics—and made a mockery of our democratic form of government. Our social structure has been undermined, and the moral fiber of our ethical standards has been seriously impaired.

The hoodlums of Al Capone's days were small fry compared with the gangster tycoons, who are now so entrenched in labor and industry that they hold the power of economic life and death over the working men and women of the United States.

With the money secured from their legalized racket that enables them to collect monthly millions in dues and welfare funds, they have made investments that give them a powerful hold on legitimate business and industry. While their operations in illicit business enterprises—in narcotics and ventures in the entertainment and allied fields have had a demoralizing effect on the youth of the nation.

And what is particularly disturbing—no matter what the evidence against them—and regardless of proof of defalcations, theft, blackmailing and murderous gang warfares, they manage to perpetuate themselves in office.

AFL-CIO President George Meany, who has been publicly wringing his hands at the pictures of malfeasance in high union office, should have instead been vigorously wringing the necks of these evil-doers. The only accomplishment he has chalked up (and this under the influence of the scandal unearthed by the McClellan Committee) is that Dave Beck is now *more or less* getting out of the labor movement—when he gets ready! But after him comes Jimmy Hoffa! As far as outward signs go, Hoffa is perfectly acceptable to the Meany organization.

And what is Congress doing about bringing labor leaders within the bounds of law and order? "Something" was going to happen to union fund mismanagement and diversion but, again, not even the outlines have come into focus. Senator John F. Kennedy had a program prepared for this purpose—months ago. It was formally announced, its steps carefully enumerated in press releases, and hearings were to begin at once. They didn't begin at once—or ever!

And what are the rank and file union members doing about it? When Beck, et al, were perspiring before the Senate kleig lights and the evidence was piling up, the revolting union members were demanding that something be done—and they seemed to have assurance from Washington that their prayer would be answered.

But when Jimmy Hoffa was freed by a jury in Washington, D. C., in a verdict that veteran court attaches have marked out for a place in judicial history of a sort, he was hailed by the rank and file—he was lionized. Or was this merely an engineered demonstration?

(*Please turn to page* 681)

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: :1907—"*Our 50th Year of Service*"—1957

As I See It!

By MICHAEL STEPHEN
Top-level Expert

TIGHTER MONEY AHEAD — A CALCULATED RISK

The Federal Reserve money managers have just moved boldly, perhaps even imprudently, to raise the Federal Reserve discount rate from 3 to 3½ per cent, highest since early 1934. This signaled a policy decision that will have enormous influence on the course of business. For good or ill, the Federal Reserve Board has decided to make the credit squeeze stiffer. The Reserve authorities took their action in the face of a riddle which has almost all economists and business analysts baffled: What is business doing and, more important, what is it getting ready to do?

Rarely has it been more difficult to decide on an appropriate credit policy. And the stakes—the well-being of 171 million people and a $434 billion economy—were never greater.

Too little money would starve the economy and possibly precipitate a business downturn. Congress and many people all over the country are already up in arms on the grounds that the Reserve Board is making money too tight and risking a depression. On the other hand, others feel that the risk of inflation is still substantial. In their view, putting out more money now would be like throwing gasoline into a smoldering fire.

The trouble is that the usual signposts of business conditions which guide credit policy are pointing in all directions today, confusing the issue and making a definite stand difficult.

The Business Outlook

Gross national product in the second quarter was running at an annual rate of $433.5 billion, a new high and $22.7 billion higher than in the second quarter of 1956. People's incomes are at record levels. Retail sales in the first half of 1957 reached a new high. Spending by Government at all levels—federal, state and local—made a new record. Business capital spending continued at record levels.

Nevertheless, many people are convinced that the steam has gone out of the boom. They devise tables of *Indicators of Business Activity,* such as that shown herewith, and point to the way minus signs have multiplied in 1957 compared with 1955 and 1956. Even where plus signs are still visible, they are shrinking. The Federal Reserve's index of industrial production has been trending down for six months now. Expansion in GNP and business plant and equipment spending has definitely slowed. Meanwhile inventory building continues to be a stimulant but this cannot be carried much further; already there are signs that some of the accumulation of stocks is involuntary, representing a backing up of production.

We have counted for years on American industry's capital investment programs to spark the economy's expansion potential. Now the constant addition of productive capacity finally seems to be catching up with absorptive capacities of consumer markets. Even growth industries—aluminum, paper, oil, chemicals—show symptoms of overcapacity.

Plant Expansion Plans in Doubt

Under these conditions it is questionable how long plant and equipment outlays will continue at current high levels. Judging by recent declines in new orders—particularly for machine tools and structural steel—a downturn may be already underway.

Meanwhile, residential construction shows no sign of an offsetting recovery. Housing starts continue to run close to the lowest rates of the past two years. It remains to be seen how much help will come from the recent action of the FHA, cutting required downpayments and raising the interest rate from 5 to 5¼ per cent.

Significantly, consumers seem to be getting more

cautious and less optimistic. The latest survey of the University of Michigan's research center reveals growing concern over the general outlook, sharp awareness of rising prices and a growing feeling that this is a bad time to buy cars or household goods. This latter attitude is reflected in auto production below a year ago and in shutdowns of some appliance plants all over the country.

Furthermore, much of the recent expansion in the economy reflects price inflation rather than real gains. Deflating the $433.5 billion GNP by the 3.4 per cent rise in consumer prices over the past year, for example, reduces it to about $419 billion, hardly much larger than 1956's $415 billion. Consumers' disposable income – what they have left over to spend after taxes – has not even kept pace with the growth of the population if the rise in prices is taken into account; per capita disposable income in the second quarter of 1957 was $1,705, against $1,713 in the second quarter of 1956.

INDICATORS OF BUSINESS ACTIVITY

	Latest Figure	Changes 1955	Changes 1956	First Half 1957
Gross National Product ($bil.)	$433.5	+ 30.5	+ 23.0	+ 7.5
New plant & equipment spending ($bil.)	37.9	+ 1.9	+ 6.4	+ 0.9
FRB index (1947-49=100)	143	+ 14	+ 3	— 4
Private housing starts (thous.)	970	—243	—172	—50
Manufacturers sales ($bil./mo.)	28.4	+ 3.2	+ 1.4	— 0.3
Manufacturers new orders ($bil./mo.)	27.2	+ 4.5	— 0.5	— 1.6
Business inventories ($bil.)	90.8	+ 5.2	+ 6.4	+ 4.6
Retail sales ($bil./mo.)	16.8	+ 0.7	+ 0.6	+ 0.3

PRICES, CREDIT, AND INTEREST RATES

	Latest Figure	Changes 1955	Changes 1956	1957 to date
Wholesale prices (1947-49=100)	118.0	+ 0.4	+ 3.3	+ 2.2 (July)
Consumer prices (1947-49=100)	120.2	+ 1.8	+ 4.9	+ 1.8 (June)
Reporting bank business loans, Seasonally adj. ($bil.)	$ 32.8	+ 4.1	+ 4.5	+ 2.6 (July)
New corp. stock & bond issues ($bil.)	—	+ 10.2	+ 11.0	+ 6.5 (June)
New State & municipal fin. ($bil.)	—	+ 6.0	+ 5.4	+ 3.9 (July)
Mortgage debt ($bil.)	149.6est.	+ 16.2	+ 14.7	+ 5.0 (June)
Discount rate	3.50%	+ 1.00%	+ 0.50%	+ 0.50% (Aug.)
Prime commercial loan rate	4.50	+ 0.50	+ 0.50	+ 0.50 (Aug.)
Prime 4-6 mos. com'l paper	4.00	+ 1.63	+ 0.63	+ 0.38 (Aug.)
Prime 90-day bankers accept.	3.63	+ 1.25	+ 0.88	+ 0.25 (Aug.)
91-day Treasury bills	3.31	+ 1.36	+ 0.53	+ 0.09 (Aug.)
Treasury 1-year borrowing rate	4.00	+ 1.38	+ 0.63	+ 0.75 (Aug.)
New High-grade corp. bonds	5.20	+ 0.32	+ 0.93	+ 1.00 (Aug.)

This poses the $434 billion question: Is this slowing of business a pause, preparatory to a new advance, or is it the beginning of a downturn?

There is no confirmation of a turnaround in business in the behavior of general price indexes and the money markets. Consumer prices have risen 3.4 per cent in the past year. The 0.5 per cent rise in June was at an annual rate of 6 per cent; continued, this would cut the value of the dollar by 50 per cent in seven years. Further rise is foreshadowed by the rising trend in wholesale prices, where the $6 a ton steel hike and the 1 cent per pound increase in aluminum overshadow price weakness in copper, lead and zinc.

Prices and the Money Market

Credit demands continue insatiable, pushing interest rates up correspondingly, as the table shows. New corporate bond offerings totaled $4.9 billion in the first six months of 1957, a new record well beyond the $4.0 billion sold in the comparable period last year, and new stock offerings ran beyond $1.5 billion against $1.2 billion in 1956.

Some observers explain increased business demands on the capital market, despite a leveling trend in business activity, as a natural aftermath of excessive earlier reliance on bank financing for capital projects. Business is now said to be raising long term money to repay bank loans. The trouble with this view is that this year's business loan expansion itself exceeds by about $2.6 billion, as the table shows, the normal seasonal experience.

Meanwhile, state and municipal bond issues totaled $3.9 billion in the first seven months, pointing to a 1957 total beyond 1956's $5.4 billion. And even at its depressed level, home building is still taking a big share of the savings flow; mortgage debt rose about $5 billion more in the first half of 1957. Though fewer homes are being built, prices have risen and the need for money is correspondingly increased.

With this tremendous demand for funds, the financial markets are under the greatest strain in a generation. In June Southern Bell Telephone paid 4.85 per cent to sell $70 million of its Aaa-rated bonds. In August top quality General Motors Acceptance Corporation paid 5.20 per cent to sell $100 million debentures. Less highly rated but still investment quality issues paid 6 per cent or better.

The U. S. Treasury which only three years ago could sell its 91-day bills for ⅝ per cent now has to pay 3⅜ per cent or better. On its recent refunding in July the Treasury had to pay 4 per cent to keep investors' funds in the Treasury's paper.

The Federal Reserve authorities are emphasizing the inflationary evidences and underplaying signs of weakening business activity. Thus, a Federal Reserve spokesman, commenting on the discount rate increases, stated: "the main problem is inflation."

This may be true. Certainly the Federal Reserve was right in April 1956 when it raised discount rate from 2½ to 2¾ per cent in the face of opposition from business, labor and such high Government officials as then Treasury Secretary George M. Humphrey and Economic Advisor Arthur Burns. That time, the pause in the economy *was* merely temporary, preparatory to a new upward surge, but now there is evidence that the boom is topping out. At this stage a ½ per cent increase in discount rate is strong medicine.

The monetary authorities are, of course, prepared to reverse their policy for they admittedly are feeling their way.

Meanwhile, it is worth remembering that we have never had interest rate increases and bond price declines such as have occurred over the past three years which were not followed by serious setbacks in economic activity.

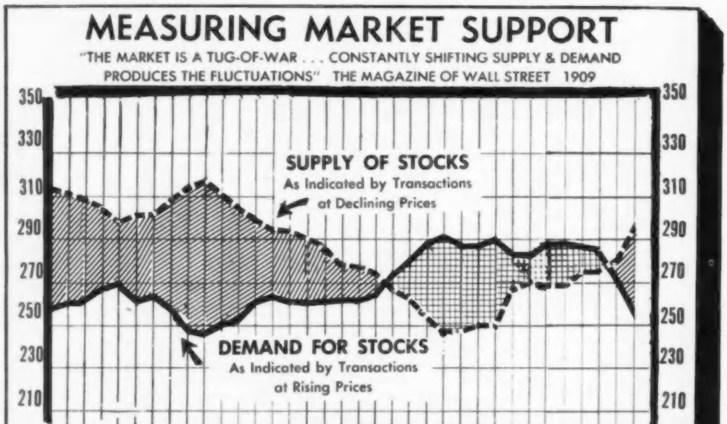
Stock Market Facing Business Realities

Although not yet decisive, recent market performance could well mean that the February-July upswing is now past history. A more questioning mood on medium-term potentials for business activity and profits is evident. We doubt that it will be changed by possible trading-range rallies. A cautious and highly discriminating investment policy remains fully justified.

By A. T. MILLER

With investors and speculators discouraged by demonstrated inability of the industrial list to plow through its 1956 tops on the July upthrust, with short-term money rates pushed up again and the bond market under further pressure, with the second-quarter earnings reports mostly providing either little cheer or cause for concern, and with hopes for a fourth-quarter business upturn toned down, the recent sell-off in stock prices was extended during the last fortnight.

At least a temporary selling climax developed in the August 7 trading session, accompanied by a substantial expansion in share turnover and resulting in a fair rally by that day's close. However, the subsequent movement to the end of last week was narrow and on the apathetic side, with trading volume reduced. Pending more light on business developments, a stand might be made around here for a time, possibly with selective backing and filling, possibly with some further rally.



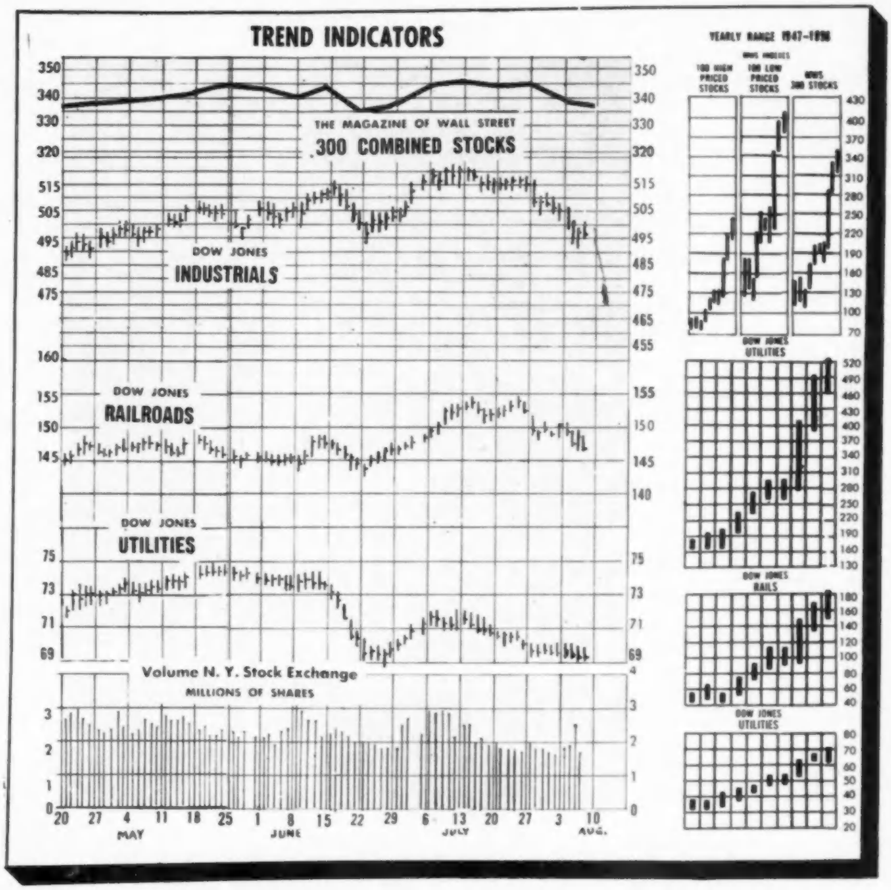
Correction Already Considerable

At last week's closing lows, the industrial average had cancelled nearly a third of its entire February-July rise and broken under the low recorded on a sizable June reaction. Although pushed down materially, the rail and utility averages remained in their June-July trading ranges, breaking no support level of technical significance. There has been a sizable, even though not great, correction of the July overvaluation. Much of the previous excessive emphasis on inflation has evaporated. The general mood is considerably more sober as regards expectations for business activity and profits over the rest of the year. That is healthy so far as it goes. Whether it is enough remains to be seen. Regardless of rallies, we do not see present basis for a renewed rise capable of carrying above the industrial average's July triple top, or amounting to much for rails and utilities.

Until the general outlook for earnings and dividends changes importantly for better or worse, it is not possible to see a case for sustained broad advance or decline in average stock prices. For some time stock values, as determined by earnings and dividends, have not changed much. That puts a ceiling on market upswings and a floor on the downswings, leaving both within fairly moderate trading-range limits so far; and with both reflecting the usual exaggerated shifts in investment-speculative sentiment, as well as the market's alteration of technical strength and weakness. If these swings are charted against business activity earnings and

dividends the reasons for their inherent limitations become obvious.

Looking back exactly 24 months from this writing, the Dow industrial average—as well as broader measures of stock prices—has travelled a tremendous distance up and down, with very small net progress. Taking only the intermediate swings over the two-year period, the average's upside "mileage" foots up to around 325 points, the downside "mileage" to about 280 points, for a net gain of roughly 54 points or about 12%. In about 12 months since early-August, 1956, when the average recorded the second of its three tops at about the 521 level, the upswings foot up to a total of 126 points, the sell-offs to 152 points (including the recent possibly incomplete one to August 6) for a net decline of 5%.



Keyed to the continuing rise of the consumers price index, "inflation talk" got louder and louder during the final weeks of the February - July upswing. It was but a whisper during the market's zig-zag retreat from early-August, 1956, to the February low, though the cost of living trended up through that period. Living costs rose about 4.3% from March, 1956, through June, 1957. The average level of the 30 Dow industrials in March, 1956, was abcut 500, against about 497 now. Thus, the evidence points up the obvious fact that inflation is not bullish for the market unless it results in higher corporate earnings and dividends. Bearing on that, average earnings of representative larger industrial companies had a net shrinkage around 6% from the first quarter of 1956 to the 1957 second quarter (based on our estimate for the latter), while on the same comparison their dividends gained less than 2%.

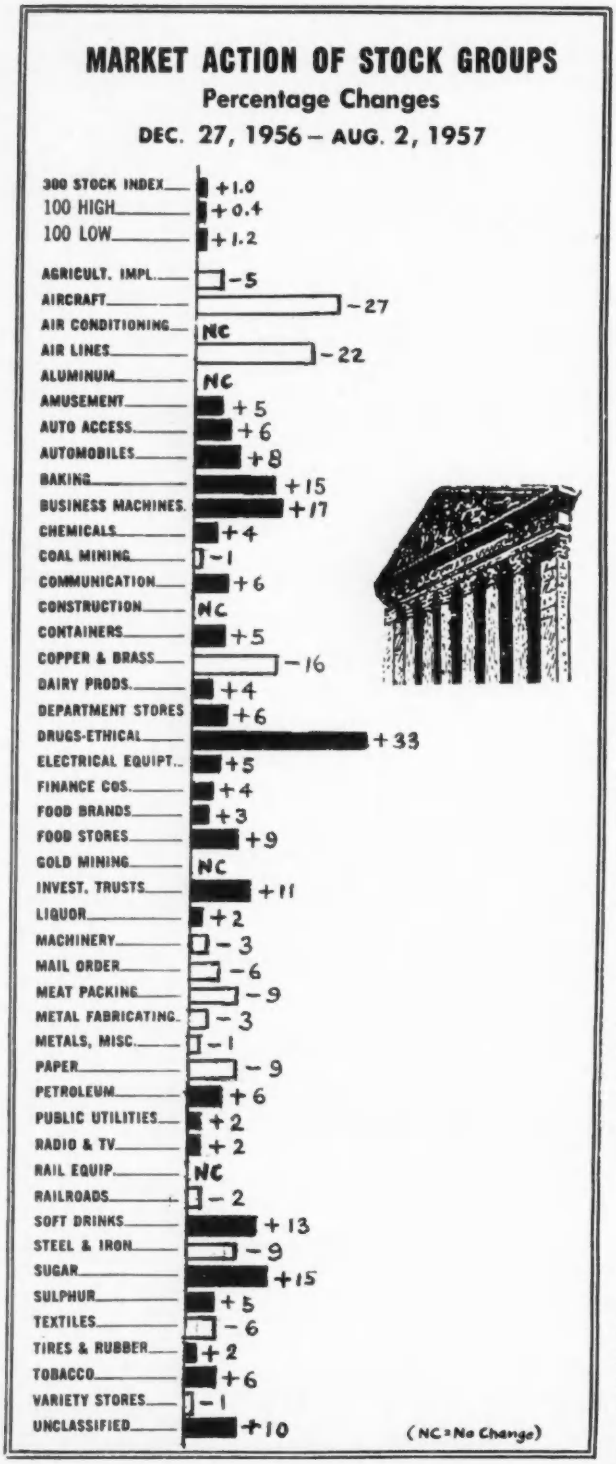
On the other hand, living costs were highly stable (despite an upward wage spiral) from mid-1952 through the first quarter of last year, through which period the industrial average had a net rise of about 80%, facilitated by roughly a 30% gain in quarterly profits of larger industrial concerns and nearly a 10% gain in dividends. Rounding out the comparison, representative prominent industrial stocks in mid-1952 were selling at an average around 10.5 times earnings, against about 15.0 times at the recent market high; on an average yield around 5.7%, against about 3.7% at the July high; and with the spread over bond yield around 100%, whereas at the July high, and at present, bond yield is appreciably in excess of stock yield.

Investment psychology, always wrong in its more extreme manifestations, can at times largely ignore the visible facts. Consider the early postwar experience. The industrial average fell from a mid-1946 bull-market high of 212.5 to about 163 in a few months time, made a double bottom in the spring of 1947 and thereafter wallowed around in a restricted range. The decline liquidated previous excess principally in speculative low-priced stocks; and, in the case of better-grade issues, presumably discounted "the coming postwar depression". But there was no depression. Ironically ignored by the market, there was a dynamic inflation, if measured by the consumers price index. It rose over 34% in 1947, reflecting termination of the war-time price controls. Aided by termination of the war-time excess profits tax and resumption of normal peacetime production, total corporate profits rose nearly 36% on the year, total dividends nearly 13%. Typical prominent industrial stocks sold at an average around 10.0 times earnings in 1947, at a yield around 5%, with bond yields about half that.

Sentiment Swings with Market

It turned out, of course, that there was much more inflation ahead, and dynamic growth in economic activity, earnings and dividends. But investors, including institutional fund managers, were not "inflation-minded" at the time, nor "long-term-growth-minded." As usual, psychology shifts with the market. In recent times of high stock prices,

particularly on the upswings to what has now become an historic triple-top, we have had the incessant bullish refrain: "more long-pull inflation certain" and "dynamic long-pull economic growth assured." The making of statistical "projections" of what investors can expect in 1965 or 1975 has become quite a business. No doubt the long-term future is promising—if a nuclear war does not afflict us. It always has been so in this country. But that cannot provide a one-way street for business or the stock market. However, a good deal of the distant promised land has been discounted in prices of popular stocks. Meanwhile, we have to pay some attention to 1957 and 1958. There is nothing roseate about 1957 business activity or earnings; and the makings for strong 1958 improvement cannot be cited. In their absence, the question is whether the coming year will be a little better than this one, a little poorer or materially less satisfactory. The stock market needs at least a boomlet—preferably a boom—in corporate earnings. We do not see it on the horizon.



A "Market of Stocks"

Of course, the investor's pay-off is in individual stocks, rather than the "average", although all accepted averages or indexes adequately indicate the general trend, and therefore general investment results, by giving a composite of the always numerous cross-current within the market. Both because of increased selectivity and limited fluctuation in over-all stock prices, the cross-currents have been a principal market feature for a long time. That was so throughout last year, and is so thus far in 1957.

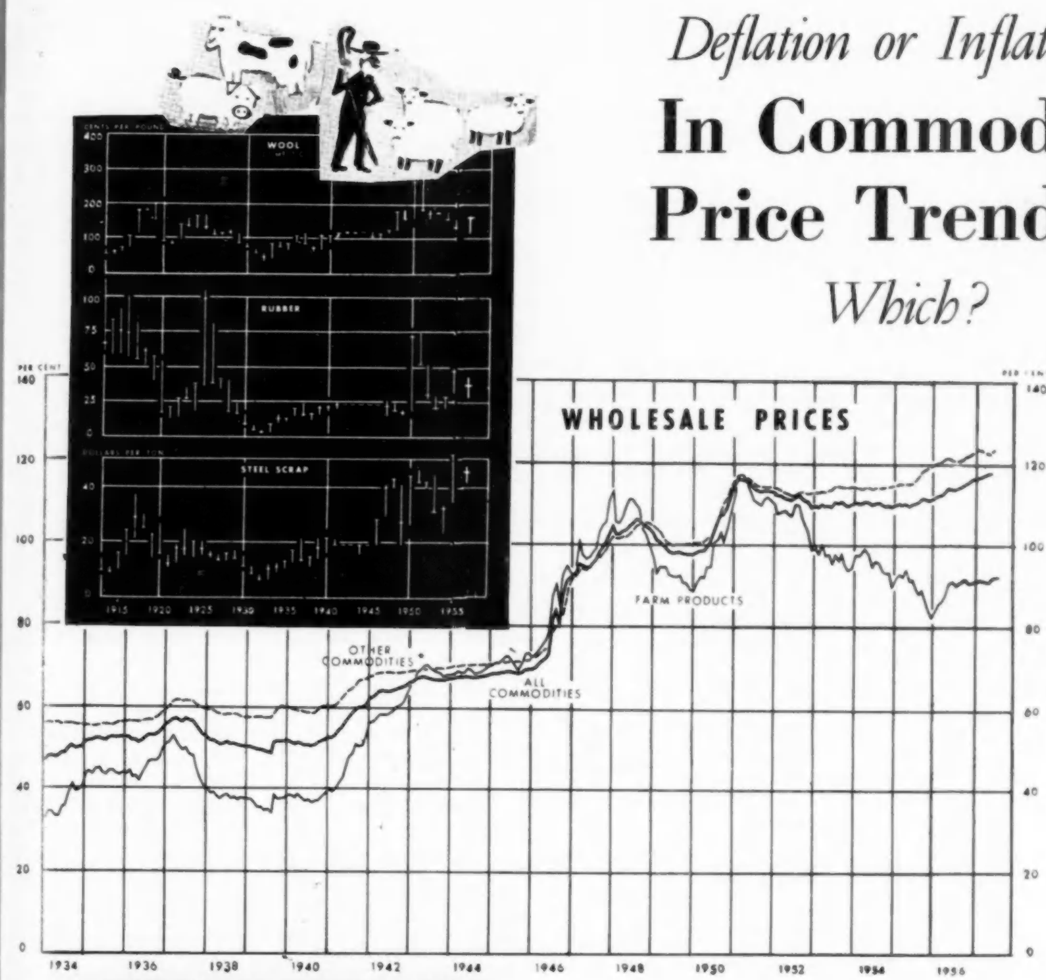
At recent levels, as shown by the accompanying chart, our weekly index of 300 stocks was up a nominal 1% since the start of the year; the index of 100 high-priced stocks was up 0.4%; the index of 100 low-priced stocks up 1.2%. Among stock groups in which there is considerable-to-broad investment interest, the markets' earlier 1957 upside impetus centered largely in oils, drugs, business machines, auto and auto parts, electrical equipments, chemicals, department stores and utilities. Among other gainers were food stores, soft drinks, sugar, tobaccos, amusements, baking, containers and finance-company stocks. At the same time, there were important net declines in aircraft, air lines and coppers; and moderate-to-substantial net declines in such groups as machinery, mail-order stocks, meat packing, metal fabricating, paper, railroads, steel and textiles.

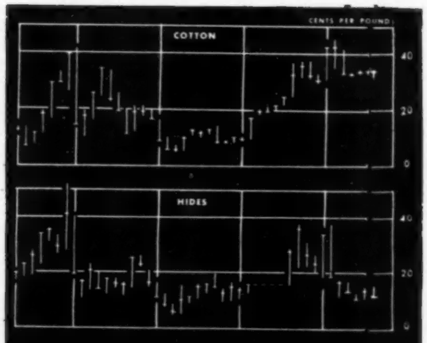
Considering the scope of their advance to the recent highs, and/or the development of uncertainties in some instances, few of the previously popular groups, if any, can be expected to provide continuing strong upside leadership. The "bloom is off" the oils, drugs, sugars, chemicals and utilities. Most of the others shown in the upside groups in the chart are either relatively high in relation to earnings for some time ahead or otherwise appear to have limited medium-term potentials.

Fresh Leadership Needed

Where is fresh upside leadership to come from? It would seemingly have to come from some of the relatively depressed groups; but most of these have continuing reasons for being out of investment favor. That is so for paper stocks, affected by industry over-capacity; for aircrafts affected variously by the progressive transition from planes to missiles and by cut-backs or stretch-outs in some procurement contracts; (*Please turn to page* 681)

Deflation or Inflation?
In Commodity Price Trend—
Which?





By ROGER WALLACE

The almost steady rise in the general commodity price level over the past year, accompanied by an equally steady rise in the cost of living has become one of the most disconcerting factors in our present day economy. Tight money, rising interest rates, and slowing down of industrial activity seemingly have had little or no effect in checking the uptrend in prices although, according to both classical economic theory and historical precedent, these should be sufficiently powerful factors to induce deflationary tendencies.

There are, indeed, many who believe that the United States has lost the battle against inflation, and that the creeping inflation of recent years eventually will give way to a violent inflation with resultant lifting of commodity prices to many times their present exalted levels. Without question, much of the demand for securities in recent months has reflected this belief and the widespread acceptance of the theory that securities furnish a "hedge" against inflation.

However, before accepting the inevitability of the eventual outbreak of violent inflation, it is advisable

to probe beneath the surface. The results, surprisingly enough, suggest the possibility that deflation rather than inflation may become a major source of concern before many months have passed.

No Inflation in Sensitive Commodities

Sensitive commodity price indices, including both those based on spots and futures, are slightly below their levels of a year ago. They peaked out late last Fall, when it became apparent that the crisis in the Middle East was not going to erupt into a major war, gave way sharply at mid-Winter, and staged a partial recovery this past Spring. For approximately two months now, they have moved over a narrow range. What little trend there has been recently has been slightly downward.

This is not the stuff of which inflationary price upsurges are made, if we examine the history of sensitive commodity prices. Invariably in the past, these prices—quick to reflect changes in supply and demand conditions—have registered the impact of the dominance of inflationary or deflationary tendencies in our economy long before the general public became aware of them.

If inflation were a real and present danger, there is little doubt that the sensitive commodity indices long since would have taken off on a stratospheric flight. Even among the highly sensitive commodities, there are some that are more sensitive than others to impending changes in the direction of the general price level. It is interesting to note that these hypersensitive commodities have been headed downward for a number of months.

The partial recovery of sensitive price indices, following their sharp dip last Winter, and the comparative steadiness of the past two months, cannot be construed as evidence of a neat balance between the inflationary and deflationary forces in our economy. This would not be the first time that sensitive commodity price indices have dipped sharply and then staged a partial recovery close to the eve of a major downturn in the general price level.

In a sense, it is as if the sensitive indices, after giving their signal for those who will to see, turn right around and send off conflicting signals in an effort to confuse the issue.

Farm Products Prices

Farm products prices, as a whole, are slightly higher than a year ago. Strength has been of a highly selective nature, however, largely confined to livestock. Fewer animals have been coming to market, reflecting both the ending of the long drought in the Southwest and the contraction in hog numbers as a result of last year's unfavorable feed ratios.

Hog raisers have stepped up their rate of farrowings, and the outlook in the months ahead is for something more than the customary seasonal rise in hog marketings and slaughter. This should serve to reverse the uptrend in hog and pork prices that has lifted them to the highest levels in several years.

Cattle marketings and slaughter this Fall and Winter, judging by the number of animals on feed lots plus those withheld by growers for feeding to heavier weights on present lush pastures and ranges, are likely to be somewhat larger than Department of Agriculture conservative estimates. Taken in conjunction with the larger prospective hog marketings and the downtrend in factory workers' real take-home pay, the indications are for lower meat and livestock prices than the levels witnessed recently.

Production of field crops, in the aggregate, will be smaller than last year and possibly the smallest in several years. However, in view of the large surpluses remaining from the bumper crops of recent previous years, there still will be far more than enough available to meet all requirements.

Cold and rainy weather this past Spring, making it difficult for farmers to plant as much as they had intended, is primarily responsible for the reduction in crop prospects. For the most part, weather conditions this Summer have been highly favorable for crop development and progress. It well may be, when the crops are harvested this Fall, that totals prove to be larger than official preliminary estimates.

The Soil Bank, much touted only a year ago as

General Commodity Price Index and Prices of Leading Commodities

Item	1929 Average	1935-39 Average	Postwar High*	Latest	Description
BLS Wholesale Index	61.9	52.4	117.8	117.9	Base 1947-'49 equals 100
Cocoa	10.3	6.0	68.9	30.0	New York, cents per pound
Copper	18.2	10.6	46.0	29.2	New York, cents per pound
Corn	94.6	76.9	271.0	136.8	Chicago, cents per bushel
Cotton	18.7	10.3	45.2	33.9	So. Mkts, cents per pound
Hides	15.7	11.8	41.0	15.5	Chicago, cents per pound
Lard	11.1	10.2	32.9	13.0	Chicago, cents per pound
Lead	6.7	4.8	21.3	14.0	St. Louis, cents per pound
Rubber	20.5	16.1	73.5	32.8	New York, cents per pound
Scrap Steel	17.8	15.8	54.5	56.0	Pittsburgh, dollars per ton
Silk	5.1	2.0	7.5	4.5	New York, dollars per pound
Wheat	120.0	96.0	319.0	214.0	Kansas City, cents per bushel
Wool	98.0	84.0	375.0	168.0	Boston, cents per pound
Zinc	6.5	5.1	19.5	10.0	E. St. Louis, cents per pound

*Note: Post World War II highs shown above are highest monthly averages.

the sure cure remedy for reducing the big surpluses of farm products, has been a gigantic flop. Primarily, it has functioned as a drought relief measure more than anything else. Last year, the acreages of cotton and wheat "taken out of production" through the Soil Bank were almost entirely in drought areas where crop prospects were miserable. As might be expected, farmers have "eliminated" their poorest lands. As a result of this and increased fertilization, yields per acre on the remaining cultivated lands have risen to such an extent as to offset or nearly offset the contractions in plantings.

Land taken out of major crops has been diverted, in most instances, to minor crops. It is quite possible, when the harvests are completed this Fall, that we will find ourselves with new surpluses where none existed before.

Export Dumping

It has been noted that farm products prices other than livestock are virtually unchanged, in the aggregate, from a year ago. To no inconsiderable extent the steadiness in prices—as compared with distinct easiness for several years previously—has reflected the partial running down of unwieldly surpluses through what amounts to nothing less than export dumping.

The United States always has been quick to protest and take prompt action against export dumping in our markets, yet we now are engaged in the practice on an unprecedently large scale ourselves.

During the fiscal year of 1957, ending June 30, exports of agricultural products from the United States attained a new all-time high value of $4.7 billion. This was 35 percent larger than in fiscal year 1956 and 16 percent greater than the previous record high in fiscal year 1952. On a quantity basis, exports also established a new record high, exceeding those in 1919, when the previous quantity record was established.

Cotton and wheat, according to the Department of Agriculture, accounted for over 90 percent of the value increase from 1956 to 1957. Cotton exports during the season just ended, which coincided approximately with the fiscal year, totaled 7.6 million bales versus only 2.2 million in the previous season. Exports of wheat were at a new record high, exceeding the previous record of 511 million bushels in 1948.

The sharp increases in exports of farm products are the result of strenuous methods adopted to bail out the Commodity Credit Corporation—the official legatee of production surpluses stemming from artificially high price supports to farmers – without much regard to the effect on other surplus-producing countries and on international relations.

There are export subsidies for wheat, flour, and cotton goods. Huge sales of CCC cotton for export have been made by slashing prices nearly 10 cents a pound from domestic price levels.

Give-away Programs

Large quantities of farm products have been exported as a result of give-away programs. Some are the result of "loans" and "grants". However, the major portion of the give-aways has been under the terms of Public Law 480. This law permits foreign countries to buy farm products here with their local currencies, and the United States Government then uses these currencies for its assistance programs in the same countries! To date, Congress has had to appropriate some $5 billion for P. L. give-aways.

Only naturally, foreign countries have diverted much of their buying of farm products to the United States. The Department of Agriculture piously maintains that we have not hurt other exporting countries in the process. But, the fact remains that we have. Through our activities, we have depressed prices of farm products in world markets, thereby forcing some primarily agricultural countries to curtail their imports of manufactured goods.

Canada, one of our best customers for manufactured goods, has been hard hit by our activities in the world export markets for wheat. Supplies have backed up in Canada, to depress prices there, as former Canadian customers have turned to the United States where we are so anxious to give away our wealth.

Canada is not taking it lying down, however. Recent advices from Ottawa indicate that serious consideration is being given to working out a mutual program with the United Kingdom, whereby Canada will concentrate its purchases of manufactured goods in the mother country in return for concentration of purchases of farm products in Canada.

It is not at all unlikely that other surplus producers of farm products, faced with backing up of supplies as a result of our give-away programs, will work out arrangements that eventually will cut deeply into our exports of both farm products and manufactured goods of various kinds.

No New Farm Programs

Under the terms of the Agricultural Act, support prices of farm products are scheduled to increase as supplies are reduced. Despite acreage curtailment restrictions, which never can be sufficiently stringent to mean much, higher support prices inevitably will result in increased overproduction. And, in turn, this means stepped-up dumping programs.

Although the political influence of the farm population is shrinking rapidly as the numbers of farms and of farmers decline, Congress has been distinctly averse to adopting legislation providing for lower federal support levels and to adopting anything resembling realistic approaches to the "farm problem".

In all probability, nothing short of a major business recession and deflation—accompanied by complete breakdown of the present system of artificially high price supports—ever will force Congress to abandon the mis- (*Please turn to page 676*)

What Second Quarter Earnings Reports Reveal

By HAROLD M. EDELSTEIN

If further evidence is needed that the boom has flattened out, it is being provided by the spate of second quarter and first half statements that have recently been released. So far, we have a repeat of last year's performance when the economy receded moderately in the first half, only to stage a spirited recovery in the latter part of the year. Whether this pattern will be repeated this year is a question in light of some faltering in certain areas of the economy.

First half reports in themselves are neither reassuring nor frightening, although there are obvious drawbacks to arriving at sweeping conclusions from the material at hand—particularly the position of company finances and the general economic state of the nation.

However, when earnings are studied against the backdrop of order backlogs, new orders, levels of production and sales, a more realistic picture of second half prospects for individual companies can be arrived at. And,—as for the general economy, since we will be dealing with a broad cross-section of American industry, our studies should help throw light on whether the economy is hesitating on the brink of a recession, or merely taking a breather after its long uphill climb.

At this point after an industrial expansion of many years, one of the most important things we have to consider is the rate of corporate profit growth and the level of retained earnings—for in the last analysis these will determine a company's position and strength. While it is true that in recent years some companies have scored amazing earnings gains, total profit growth in the economy during the post-war period has been irregular. Even in 1956, when pre-tax profits reached an all-time high of $43 billion, net income after taxes was still not able to match the record set in 1956. And although the first quarter of 1957 was running at an even higher rate than the 1956 figures, the after-tax picture will probably not vary much from last year's totals.

Similarly, retained earnings will undoubtedly remain well below the record 1950 levels. The year 1956 closed on a strong note, with retained earnings climbing to an annual rate of $10.8 billion in the last quarter, and most estimates placed the rate for the first 1957 quarter at about $10.5 billion. Recent official figures released by the Department of Commerce however, show a drop in the first quarter to $9.1 billion, considerably below the previous period and $.4 billion behind the first quarter of 1956. A close look at first half reports indicates that there will be little of any improvement in the

Quarterly Sales, Profit Margins and Earnings of Selected Companies

	Second Quarter 1957			First Quarter 1957			Second Quarter 1956		
	Net Sales (Millions)	Net Profit Margin	Net Per Share	Net Sales (Millions)	Net Profit Margin	Net Per Share	Net Sales (Millions)	Net Profit Margin	Net Per Share
Air Reduction	$ 46.8	8.3%	$1.02	$ 46.2	9.3%	$1.16	$ 43.0	9.4%	$1.12
Allis Chalmers	147.8	4.1	.74	137.9	3.7	.61	153.6	3.9	.74
Aluminum Co. of Amer.	214.6	9.0	.91	208.6	8.9	.87	223.9	10.8	1.16
American Can	220.5	5.2	.86	173.6	3.4	.41	209.4	5.1	.81
American Cyanamid	127.0	8.3	.49	132.1	9.9	.62	125.1	8.5	.51
American Home Products	77.1	12.5	2.52	95.8	9.8	2.46	68.5	12.0	2.15
American Steel Foundries	33.6	7.7	2.01	29.8	6.1	1.41	31.9	7.4	1.95
Armco Steel	202.9	7.3	1.25	198.2	7.8	1.29	204.6	8.5	1.60
Babcock & Wilcox	95.0	5.0	.81	86.4	4.3	.71	74.7	4.8	.70
Bethlehem Steel	687.2	7.3	1.09	676.1	7.8	1.24	670.3	7.5	1.26
Chrysler	910.3	4.7	4.95	1,150.7	4.0	5.34	686.4	1.1	.89
Cities Service	241.0	5.3	1.25	306.4	7.6	2.27	230.9	5.2	1.21
Colgate-Palmolive	66.3	4.1	1.04	70.6	3.8	1.05	78.0	2.0	.67
Continental Can	271.0	4.5	1.06	221.5	3.2	.62	263.8	4.8	1.11
Corn Products	85.4	5.1	.47	76.5	6.4	.54	74.6	3.9	.31
Corning Glass Works	38.4[1]	11.5[1]	.65[1]	35.6[1]	11.8[1]	.57[1]	36.5[1]	11.7[1]	.63[1]
Douglas Aircraft	294.2	2.6	2.13	271.3	3.2	2.37	252.0	3.0	2.08
DuPont	505.0	20.2	2.18	509.4	19.4	2.12	475.3	19.5	1.98
General Amer. Transport.	53.6	7.9	1.78	49.7	10.1	1.43	52.1	6.8	1.49
General Electric	1,072.4	5.9	.74	1,048.8	6.1	.73	1,012.5	5.7	.67
General Motors	2,837.4	7.7	.78	3,076.9	8.4	.93	2,804.0	7.8	.79
Goodrich, B. F.	182.3	5.2	1.07	183.6	5.5	1.14	184.0	6.2	1.28
Gulf Oil	......	....	3.60	......	....	3.20			2.35
Hercules Powder	63.8	7.2	.55	60.8	6.7	.48	63.0	8.2	.62
Int. Business Machine	......	....	1.85	215.7	8.6	1.78	......	....	1.61
Kennecott Copper	126.7	17.0	1.99	133.6	20.7	2.57	162.0	27.7	4.16
Liggett & Myers Tobacco	156.0	5.0	1.91	132.5	4.0	1.29	142.9	4.7	1.64
Minn.-Honeywell Regulator	81.8	6.1	.76	76.3	6.9	.79	66.6	7.5	.77
National Cash Reg.	95.7	4.5	.62	87.1	4.4	.54	82.2	5.0	.63
Outboard Marine	47.9	11.1	.69	36.8	8.2	.42	40.4	12.5	.72
Owens-Corning Fiberglas	44.0	5.7	.38	41.8	5.7	.36	43.3	6.7	.47
Pfizer (Chas.) & Co.	47.7	9.6	.84	50.7	10.8	1.01	43.3	11.9	.89
Pittsburgh Plate Glass	160.1	10.0	1.62	150.9	8.7	1.34	148.8	9.7	1.48
Radio Corp. of Amer.	269.2	2.7	.48	295.7	4.3	.87	251.6	2.9	.47
Reynolds Metals	111.7	7.7	.75	105.1	9.4	.94	106.9	11.1	1.14
Reynolds Tobacco	271.1	6.5	1.70[2]	236.6	6.5	1.47[2]	242.6	6.5	1.53[2]
Schering Corp.	14.4	17.0	1.40	15.0	16.0	1.37	13.5	17.6	1.35
Scott Paper	69.6	7.8	.68	69.8	7.6	.66	66.6	8.4	.70
Standard Oil of N. J.	......	....	1.15	......	....	1.20	......	....	.95
Sylvania Elec.	74.9	2.3	.46	87.5	3.5	.84	75.9	4.1	.86
Texas Gulf Sulphur	19.2	27.9	.54	17.8	3.1	.56	22.9	3.2	.75
Textron	64.8	3.4	.58	63.8	3.5	.58	62.8	3.7	.65
Thompson Products	99.1	4.3	1.52	96.8	4.1	1.44	74.0	3.6	.97
Trans-World Airlines	67.4	3.1	.36	52.1	d 6.2	d .97	63.6	1.4	.29
Union Bag-Camp	39.6	11.0	.60	39.2	12.1	.67	42.0	12.8	.76
U. S. Rubber	2[illegible]9.0	2.9	.92	232.2	3.0	1.25	234.4	4.0	1.53
U. S. Steel	1,170.3	9.9	2.04	1,166.4	9.9	2.03	1,168.7	8.9	1.83
Warner-Lambert Pharm.	38.8	6.1	.91	40.1	8.0	1.25	34.8	5.9	.82
Westinghouse Electric	507.2	3.2	.95	475.6	2.9	.82	380.7	1.7	.38
White Motor	55.7	2.7	1.47	54.0	3.4	1.79	59.8	3.4	2.04

d—Deficit. [1]—12 weeks. [2]—Combined com. stock.

second quarter figures when they are finally released.

Breakdown of First Half Earnings

A Magazine of Wall Street staff survey of the first 150 important companies to report mid-year earnings reveals dominant enough trends to warrant assuming that they will hold as the balance of the reports appear. If there are significant changes they will be discussed fully in Part II of this report which will appear in the next issue.

For one thing there is a definite continuation of the first quarter trend toward higher sales but lower net incomes for many firms. The profits margin squeeze is thus still very much with us as the small declines in manufacturers' raw materials costs have not been sufficient to offset the high costs of labor, money and transportation.

The principal difference now is that the tide is engulfing more companies. Fully 96, or almost two-thirds of the companies in our sample reported higher sales during the period, but less than half (49%) were able to convert the greater revenues to earnings advances. Moreover, many of the companies would have had lower earnings for the half were it not for particularly strong first quarter showings. **Shell Oil,** for example reported record sales and earnings for the first six months. Sales were $902.5 million compared with $794 million a year ago, and net income advanced 20¢ per share to $2.49. For the second quarter, however, despite a sales jump to $438 million from $394 million in the second quarter of last year, per share net dropped to $1.12 from $1.14. Thus, with the effects of the Suez crisis dissipated, the company is obviously having trouble maintaining its margins.

Texas Company, on the other hand continued its quarter to quarter improvement, reporting net income of $1.44 per share for the second period against $1.25 a year earlier. For the half, net rose to $3.01 per share from $2.52 in the first six months of 1956, but with no sales figures available, there is no indication of the extent to which profit margins are being maintained.

Best Earnings Gains In Few Groups

Significantly, the most consistent earnings gains are confined to relatively few industrial groups. Sixteen of the better earners belong to the chemical and drug group; ten are petroleum companies; six are machinery and tool makers; and there are four each in the rail equipment, tobacco, electrical-electronic, food and steel industries. Thus 71% of the surveyed companies reporting better earnings for the first six months were confined to eight groups —and within the groups the major companies dominate the picture.

In the steel industry, for instance, U.S. Steel, Bethlehem, Republic and Inland are the blue ribbon firms, but even here Bethlehem and Republic owe their better six months performance to exceptional first quarters. In each case, second period earnings were below those of a year ago. Similar patterns run through the other industries. Even the drug group is not without its semi-casualties. **Chas. Pfizer** reported a healthy sales increase to $98 million in the first half from $87 million in the same period of 1956, and a net income equal to $1.85 per share compared with $1.77 last year. But in the second quarter, although sales rose almost $4.5 million, net income dropped to 84¢ per share from 89¢ in last year's second quarter.

Furthermore, to remain on the blacker side for a moment, a number of the better earning groups can be considered vulnerable to readily anticipated adverse conditions. The performance of the oil industry must be tempered by the heady stimulus earnings received in the first quarter from the Suez affair, and the current agitation to protect the domestic price level by restricting imports into the country; the steels, though operating more efficiently at lower precentage of capacity operations, are nevertheless relying on a strong fourth quarter pick up in demand to assure better full year to year comparisons; the tobaccos, after making an excellent recovery are again the target of scientific and government attacks on their products; and the machinery and tool companies, now shipping on past orders, have little to cheer about in light of the steady decline in new orders this year.

Lull to Continue

But if more companies are reporting lower earnings than a year ago, there is no sign that we are approaching the gloomy prophesies of economic collapse. Key business indicators are too strong for that, and most companies are too financially sound —but we may be in for an extended period of economic retrenchment and readjustment. Certainly, though, this should come as no surprise to readers of the Magazine of Wall Street. The Trend Forecaster in our Business Analyst section has been on the negative side of the scale since early 1956, although it has not sunk to the low levels that prevailed during the business dips in 1948-49 and 1953.

Furthermore, we have pointed out again and again in various articles that many of our key industries were approaching over-capacity, and the difficulties that industry would encounter in maintaining its expansion goals in the face of inflationary pressures, diminishing profit margins, tight money, and an equally tight labor market.

The Economy is Basically Strong

But we have been just as adamant in pointing out that most of our economic problems are those of "plenty" and not of "want," and that actually our economy is basically strong. The astuteness of our business leaders has been demonstrated over and over again in coping with one new challenge after another. But the economy is a complex mechanism, made more so by government interference and a public policy devoted to the maintenance of a fully employed working population. It is inevitable, therefore, that periodically the machine will get out of kilter. Indeed, it is surprising that it has taken so long for some sort of reckoning, no matter how mild, to arrive.

The Korean War pulled us out of one incipient recession, and after hostilities ended, pent up demand and across the country expansion kept the boom rolling. The consumption binge reached its high point in 1955, aided no end by a revolutionary expansion of the credit system that allowed consumers to buy what they could not pay for until

tomorrow, and radically new merchandising methods ranging from discount houses to mass advertising techniques that whetted appetites but eventually left consumers satiated.

As consumer spending tailed off in 1956, the slack was taken up by the record levels of business expenditures for capital expansion. But now the clock is running down a bit. Consumers are more reluctant to spend as freely as before, and tight money and smaller retained earnings are slowing the tempo of capital spending.

Business Is Better Informed Today

But fortunately, to be forwarned is to be forarmed, and businessmen today have a tremendous volume of governmental and private agency statistical information at their disposal to help them gauge the economic climate, and lay their plans accordingly. We have little patience with mechanistic applications of cold statistics, but when used in conjunction with sound thinking, they can be extremely useful and provide an excellent set of warning signals.

Any economic retreat, will probably be an orderly one as business falls back on its excellent financial resources and sound organizational structure. How long the retrenchment will last will depend to a great extent on the speed with which inventories are liquidated; the level of sales for the automobile industry in the last half of the year, and the success of the new 1958 models; the level of government spending; the rate at which consumer debt is reduced, so that they can begin buying in heavy volume again; and the level of business expansion in the balance of the year.

In any event, we will not get much of an inkling until after the fourth quarter, for although third period comparisons will probably be favorable, industry will not have a steel strike to contend with this year, as it did a year ago.

The accompanying table contains a detailed breakdown of the half year performance of a number of leading companies, some of which are discussed below. In our next issue, additional companies will be discussed in Part II of this report.

Some Wide Variations

This year's reports are not without their typical number of radically changed company fortunes. **Chrysler** Corporation continues its first quarter pattern of overlaying an extremely good year on top of an exceptionally poor one last year. Second quarter sales, reflecting the company's singular success with its current models, bounded to almost a billion dollars from $686 million in the same period a year ago. With a 4.7% profit margin compared with 1.1% a year ago net for the quarter spurted to $4.95 per share from 89¢. For the full half year sales passed the $2 billion mark, some $600 million ahead of the first six months of 1956, and net came to $10.29 per share.

On the other end of the scale, **Kennecott Copper,** a major producer of the red metal, and one of the most efficient units in the industry experienced a further precipitous drop in earnings, despite the fact that the physical volume of ore shipped remained at record levels. With the price of copper substantially below last year's levels, second quarter sales revenues slid to $127 million trom $162 million in the same period last year. Net per share dropped to $1.99 from $4.16, bringing half year results to $4.56 against $8.24 for the first half of last year. Full year earnings will afford ample coverage for the regular $6.00 annual dividend, but last year's special payments of $1.00 in the first half was omitted, and second half extras are in doubt.

Steels Still Mixed

The steel industry, touched on briefly earlier, continues its mixed first quarter pattern. Only U.S. Steel, among the three top firms was able to show better results in the second quarter, while the smaller firms continued to feel the profit margin pinch. Even **Armco,** noted for its efficient operation has not been able to match last year's performance. Margins slipped to 7.3% of sales from 7.8% in the first quarter and 8.5% in the second quarter of last year. Despite a sales rise over the initial quarter of the year, revenues remained behind the second quarter of 1956 and net slipped to $1.25 per share from $1.60 in the year earlier period. **Bethlehem** also saw its margins dip to 7.3% from 7.8% in the first quarter and 7.5% in last year's second quarter. **U.S. Steel,** on the other hand, held second quarter margins on a par with the 9.9% of the first quarter and a full percentage point above the second quarter of last year. With sales approximately unchanged, net advanced to $2.04 per share for the quarter against $1.83.

Increased Efficiency in Some Firms

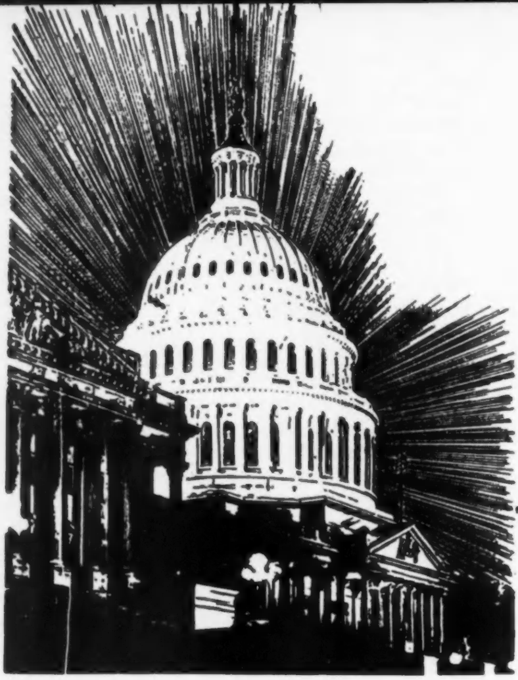
In many instances better, or at least comparable results are showing up as the effects of cost reduction programs begin to be felt. Thus, **Allis-Chalmers,** a leading producer of heavy electrical equipment, construction machinery and farm equipment, has been able to offset the continued weakness in farm lines by increased internal efficiency. Although sales dropped to $147 million in the second quarter from $153 million last year, margins increased to 4.1% from 3.9%. Although half year earnings are behind a year ago, the company scored its third consecutive quarterly earnings advance, after a sharp drop in the second half of last year.

American Can combined increased sales with better margins to raise its net to 86¢ per share for the period against 81¢ a year ago and 41¢ in this year's opening period. Further operating efficiencies should result from the company's new plate cutting operations and the merger with Dixie Cup, lending hope that full year results will better the 1956 figures.

Westinghouse Electric, now fully recovered from the disastrous strike of last year raised its margins to 3.2% from 1.7% in the year earlier second quarter. With sales one and a half times as great, net mounted to 95¢ a share against 38¢ a year ago, and half year results were running ahead of the company's predicted $3.50 annual rate.

Thompson Products, too, continues its excellent quarter by quarter record. Sales climbed to $99 million from $74 million in the second quarter of 1956, and with margins at 4.3% versus 3.6% net per share was over 30% higher at $1.52.

General American Transportation, a leading rentor of railway rolling (*Please turn to page* 680)



Inside Washington

By "VERITAS"

FILED AWAY for this session is legislation outhorizing United States membership in the Organization for Trade Cooperation. OTC is the agency which administers the General Agreement on Tariffs and Trade. President Eisenhower asked Congress several times to pass the needed legislation but there was little steam in his, or other requests. However, valuation reviews are underway. They'll make it harder to unload cheap imports.

> ### WASHINGTON SEES:
>
> Noticeable slowdown in the effort to clean up union fund administration can be attributed to several factors not the least important of which is disagreement among labor leaders as to who should do the job. George Meany, AFL-CIO chief, has told Congress the task is too complicated and involves too many jurisdictional and related problems to be handled efficiently within the structure of organized labor. Meany proposes that Congress undertake to write effective rules. John L. Lewis agrees a cleansing is indicated which involves much conscientious work but admonishes: "No Congressmen need apply!"
>
> Adding to the perplexities is the contention advanced by the U. S. Chamber of Commerce and others in the management sphere, that only union accounts and not joint labor-management benefit funds should be embraced in the study.
>
> Congressmen who usually shy away from any activity that might show up in a bad light the performances of 16 million voters, don't have that problem here: they can cite the page and record to establish that the need for tighter accounting and closer controls is conceded by the unions. But the broad subject of abuses in handling of funds has lost some of its publicity value in the concentration on individuals within the labor movement. The McClellan Committee has a corner on the headlines. That group, in turn, pleads it's too busy developing the story to undertake prescribing a cure.

HIGHWAY construction plans have not created a boom in road-building machinery employment and this is a great disappointment to the unions which backed the program because it seemed to mean jobs. Allis-Chalmers and International Harvester are operating with work force cut 8,000 hands under one year ago. Reason is found in heavy inventories and less demand for graders and tractors than was expected. Reasons are several in number, including slow start (the program is far behind schedule), the federal highway trust fund is building slower than expected, and what started out to be a 13-year plan has been given a stretch-out to 16 years.

RECORD or near-record lows for the month of June have been reported by the U. S. Veterans Administration in GI loan activity. The figures reflect difficulty in finding financing for VA-guaranteed loans at the $4\frac{1}{2}$ per cent interest rate. VA reported it received 20,911 home loan applications in June, 8.4 per cent down from May, and the lowest June since World War 2. Appraised requests for proposed structures were 13,736, a drop of 17.2 per cent from May and the lowest since September 1951.

BLAME for stalling labor legislation in the House of Representatives is being passed back and forth between Secretary James P. Mitchell and Rep. Graham Barden. The Labor Secretary says Barden, as chairman of the Labor Committee, has been pigeonholing bills; the Congressman retorts with the charge that the Cabinet member has been giving lip service while dragging his feet. There is abundant evidence that both are correct: neither Mitchell nor Barden has shown crusading spirit on wage-hour, pension improvement and other bills. The real "culprit" probably is organized labor: no major segments agree on makeup of any bill.

As We Go To Press

▶ The "disarmament scare" with its effect on industrial employment a factor, (if disarmament comes), is casting a deep shadow. Delegates to the aircraft and missiles conference of the Machinist's Union were told that one out of each three jobs in the United States is directly or indirectly dependent on defense spending. The reaction was novel: there was no talk of retrenchment or of job relocation; the attitude appeared to be one of "get it while you can." A multi-point program looking to 1958 wage negotiation was framed around general revision of the wage structure of the aircraft industry "and a general attack on downgrading and job descriptions through which companies steal back wage increases negotiated at the bargaining table."

▶ Decision as to the amount of increase to be demanded next year was postponed until January. The unioneers want to watch the cost of living indexes, and appraise the outlook for disarmament. This much is certain: a shorter work-week to spread work with no increases in rates will be the aircraft industry's proposal to meet the slowdown, if one comes. The issue must be faced early; with the exception of United Aircraft, all big contracts expire next Spring. Management will be met at the bargaining table with the charge that it is using disarmament talk and government economy moves to flatten out pay rates.

▶ The Pentagon's order to cut out overtime has reduced paychecks on an average of $17 to $36 a week, says the International Association of Machinists. Contract cancellations and stretching out production schedules have served to justify the ban on premium pay, says the Union. IAM members resent being bumped off the gravy train but they can't protest too vigorously: the fact of overtime is the proof that more workmen could be absorbed, at regular pay, and that unemployment is not justified. Hence managements proposition for spreading the work.

▶ We tell them: A new listing of all U.S. Air Force bases in the continental United States is available. The compilation is dated July 5 and it lists 193 stateside installations. It even notes future plans. For example: the Baltimore base will be moved to Andrews Field, near Washington, D.C., and Smoky Hill Air Force Base, at Salina, Kansas, has had its name changed to Schilling Air Force Base. The Department of Defense has free copies available.

▶ They tell us: The Department of the Army has issued a 13-page special report on Soviet Army ordnance equipment. From small arms to heavy guns, Communist armament stresses simplicity, standardization, ruggedness for increased mobility and firepower. Among the weapons discussed and illustrated are the T-54 tank, the new 107-mm. gun-howitzer, 240-mm. breech loading mortar capable of firing atomic caliber-size shells. Helicopters and other troop carrying aircraft as well as basic foot soldier armament are discussed. The Pentagon is distributing this also.

▶ If there is anything likely to draw together the Modern Republicans and the Old Liners in Congress it is a mutual concern over the drifts in relations between the party chiefs at both ends of Pennsylvania Avenue. It appears certain that, if there is to be a republican legislative policy, it must be formulated at the Capitol. No longer is it considered safe to assume that a program enunciated at the White House can be espoused with assurance that the rug won't be pulled, leaving the congressional warriors in mid-air.

▶ The record of events is clear on the point that President Eisenhower has developed a tendency to undercut the causes that once held the Great Crusade together. Ike went boldly before the Nation last Spring with a budget of record high proportions and assumed personal leadership in the fight to sustain it. After two television appearances, supporters considered he had improved their position: critical

letters from home dropped off. Then, the President declared it not only is the right, but also the duty, of Congress to reduce the estimates.

▶ None of the militancy went from the drive for full amounts asked for defense and for foreign aid. But after his supporters had fought the good fight, taken the criticism, for voting enormous sums for these purposes, the public learned the White House had told all agencies they could get along with less than was the "irreducible minimum" of a few months earlier, and that they must do so. The President encouraged his stalwarts to fight tax reduction at every level: but a lower budget and less spending places the Congressman again in the line of fire.

▶ President Eisenhower's backdown on the civil rights bill left his team with no hope of success in the broad area first envisioned. It firmed the Solid South behind the democrats, from whom part of it had been wrested in part in the past two elections. When Ike said he wasn't sure of the meaning of legislation he was asking his party-men to back, southerners knew they could put away their filibuster notes. They wouldn't be needed. Next in a series came the school-aid bill. On the eve of its junking, republicans heard from their leaders that Mr. Eisenhower wouldn't veto the measure if it passed. Nothing more.

▶ The Treasury has been taking a beating from Capitol Hill because of the 4 per cent interest rate it is offering on some refinancing. The Government must do something about the $24 billion coming due before Dec. 31. What Humphrey et als have been doing is presenting the facts, defending the proposed action on the basis of necessity -- but nobody has asked the critics: "What would you do?" Certainly, the Treasury can't pay off the debt in cash and solve the interest problem, and since it must go into the market for the money it seems obvious that the demand of the price tag must be met.

▶ Secretary Humphrey hadn't accomplished the objective of stretching out the debt. The average maturity stood at 46 months in 1953 when he took over; in May of 1957 it was 43 months. While oversubscriptions of some issues lead to the belief that the Treasury might have done better, had it tried, there was no assurance. And the Government cannot operate on guesswork. Humphrey at all times was in a highly competitive market, peddling in competition with states and cities, as well as private corporations. It would be interesting to read the minutes of Treasury-Federal Reserve Board conferences in recent years, if any were, indeed, kept!

▶ Labor chiefs who wring their hands at the prospect of mergers which have the effect of cutting duplications in the payrolls, seem less concerned over the "merger vice" when they are the principals. They face a demand of a new union for employer recognition as a collective bargaining agent. Field Representatives Federation, has taken steps to qualify for NLRB services, and intends to put on the heat if the right to bargain is abridged. Membership is made up of 250 AFL-CIO labor organizers. Since the two big unions merged they don't need duplicating organizers -- 1 can do the job 2 formerly did. The employer (AFL-CIO) has more field representatives than needed as a result of the merger and has taken steps to effectuate the policy that seems normal and indicated, personnel retrenchment. AFL-CIO takes a dim view of "Waste."

▶ Reports from England confirm that the problem of inflation is at least as great there as it is here, but there is one elemental difference in the situation: Here, government is assessing blame and seeking cooperation in stopping it; in England, it is the government that is being blamed for causing it. The Labour Government no longer holds sway but its legacy of nationalization holds on. The wages of the coal miners have gone up -- and the mines are nationalized. The repository for blame is clearly marked. There have been boosts in travel costs on the government-owned railways; it's been the same with coal, gas, utility, telephone and telegram and other costs. Under the system in vogue in the United States, the public seeks and finds a culprit in each instance, but it isn't always the same one. Sometimes it is labor, sometimes it is management that feels the brunt of protest. In London where the principles fixed by Labor rule the government, officialdom gets it from both sides.

Prime Minister John Diefenbaker

Where Will U.S. Stand Under Canada's New Deal?

— Our Best Customer Makes Political and Economic Changes That Affect Us

By M. L. S. BAYSWATER,
our Ottawa Correspondent

The sudden, dramatic changeover of Government in Canada after the same political party controlled policies for 22 years will definitely bring a "tougher policy" towards the United States on some public issues of direct concern to public-minded business statesmen but U. S. companies carrying on operations in Canada directly or through subsidiaries, affiliates, etc., can expect no immediate sweeping changes from the "new deal" in Ottawa despite the passionate clamor about "Canada First" by the new leaders, according to top level informants.

These top level informants emphasize that the "new deal" is not anti-American and it was not brought into power by anti-Americanism. It is true that "Canada First" was stressed during the lively and colorful political campaign, with many arguments being offered on the basis of support for principles founded on "economic nationalism." But at the same time it is also true that the leaders of the "new deal" showed open anxiety not to create the impression that they were in the slightest way anti-American. The passionate rhetoric stressed that the old regime was solely to blame for existing problems.

The New Prime Minister Speaks

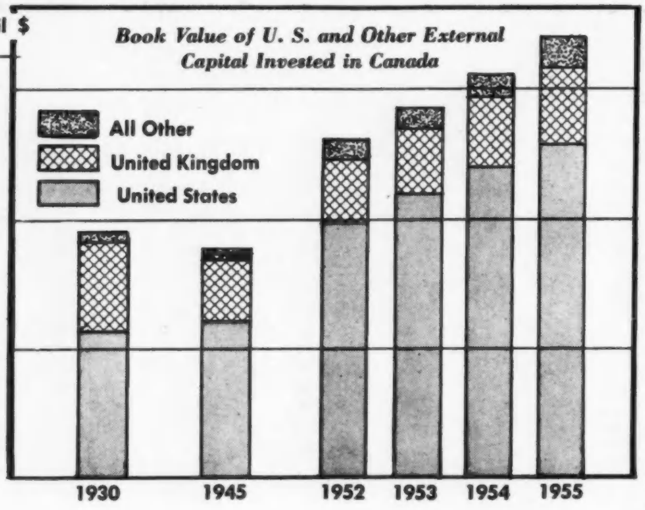
In fact, Prime Minister John Diefenbaker himself has stated bluntly that his party will welcome foreign investment. "We do not want to see it discouraged," he said, though he added that "a reading of the pages of history shows that the loss of a nation's economic destiny may lead to the same fate politically" and he called for changes.

He pointed out that a study has shown that foreign investment in Canada now amounts to approximately 65% of the national income and "a sense of national destiny for Canada calls for that investment being directed to the maximum benefit for Canada." He believes that Canada's economic policy must ensure and reserve for the people of Canada and for future generations "the control of our economic destiny."

"We believe that Canada has a function to provide, and the state has that function, to provide a climate and initiative, but we believe the time has come to give to Canadians under the law, and under the Income Tax Law, the same rights as foreign corporations have that come into Canada and risk their capital," the Prime Minister stated. "We believe that there should be strong incentives in the Income Tax Act for Canadians to invest in Canadian equity stock. We believe that the discriminatory method of taxing Canadian oil companies should be changed so that Canadians are not at a disadvantage in competition with foreign investors."

The Prime Minister explained that internationally "we must retain a close relationship with the Commonwealth" but he hastened to add that "we must maintain our relationship with our neighbor, the United States," stressing at the same time in the latter reference that Canada "must recognize

that her (U. S.) devotion to freedom means survival to free men all over the world." He reiterated that the Canadian Government under his leadership will remain true to its international obligations in the United Nations and in the North Atlantic Treaty Organization.

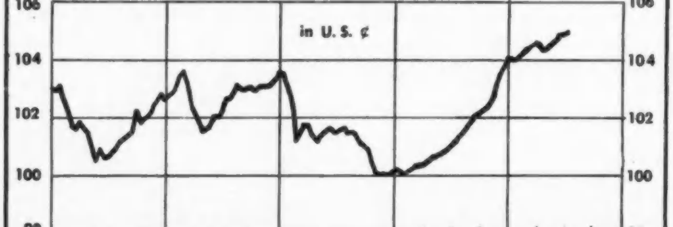


What It Means

In other words, the "new deal" is apparently planning no drastic changes which would discourage U. S. investments in Canada, nor otherwise any sweeping moves to disrupt normal U. S. direct or indirect operations in Canada. As one top level informant put it, "there's no plan afoot to kick U. S. capital out but rather to do things to 'encourage' more Canadian participation, managerial and financial, in U. S. operations in Canada." This change calls for adjustments in U. S.-Canadian relations, not for alarm, he pointed out, hinting that the "new deal" is most likely "going to re-examine Canada's economic policies to ensure and preserve for the people of Canada the control of their own economic and political destiny."

Capital Investment Shifts

Consequently, under the "new deal" the stimulation of the flow of investment capital into Canada from the U. S. or elsewhere will not be discouraged but tax changes as well as other moves are anticipated now to "encourage" more Canadian participation, on a partnership basis, in such expansions and developments. The "new deal" recognizes that foreign investment, mainly from the U. S., has increased steadily throughout the post-war period and played an almost decisive role in the development of several of Canada's resource industries. From 1948 to 1955, the book value of foreign investment in Canada increased from $7½ billion to more than $13 billion, and of this increase, U. S. investment accounts for more than 80%, rising in that period from $5½ billion to over $10 billion. The Canadian share of ownership and control has been declining in certain manufacturing, mining, smelting and petroleum industries, a spokesman for the "new deal" said, explaining that "United States capital has financed a very substantial portion of the increase in our industrial capacity."



"Canadians are realistic and know that if foreign investments were to stop or be seriously hampered, a deadly blow to our development would be the result", Prime Minister Diefenbaker stated in discussing this subject." On the other hand, if foreign investments are to remain predominant in resource industries, Canada would tend to become a purely extractive national economy supplying the materials for other nations to process and turn into useful goods."

"Why have Canadians not participated to a greater extent?" he asked. "Some put it down to timidity. Others say that the tendency of Canadians has been not to invest in risk capital but rather in the direction of long-term savings. I believe that too high taxation and antiquated and out-dated tax processes are responsible in large part."

Complaint Against U. S. Business "Control"

"There is another phase of the development that is not in keeping with Canada's destiny, that is the degree to which the United States' industries have almost absolute power and control over many enterprises in our country and whose practices deny Canadians getting more than a token interest," he continued. "Canadians, as a whole, believe that they should have an opportunity of greater participation in investment in these companies and a voice in sharing in destiny of important sectors of our economy and in particular among those that I have mentioned."

Moreover, the "new deal" is definitely going ahead with plans to encourage more processing of Canada's raw materials within Canada and to develop natural resources on this basis in future, adopting this new policy in opening new frontiers in the North where vast resources of hidden wealth exist. As part of this policy, much more aid through taxation relief and otherwise will be provided to encourage research.

The backers of the "new deal" hold that wherever possible U. S. and other companies should employ Canadians in senior management and technical posts, should retain Canadian engineering and other professional and service person-

Canada's Foreign Trade

(Millions of Canadian Dollars)

EXPORTS	Exports to U.S. 1954	1955	1956	Exports to Others 1954	1955	1956	Total Exports 1954	1955	1956
Mineral & Metal Exports:									
Copper, nickel & prod.	183	228	246	134	162	183	317	390	428
Aluminum & prod.	77	84	97	108	129	139	185	213	236
Lead, zinc & prod.	63	64	67	36	44	42	99	108	109
Other minerals & metals	141	169	187	79	81	110	220	250	297
Iron Ore	26	80	114	14	20	31	40	100	144
Petroleum	6	36	103	.....	.....	1	1	36	104
Total	496	661	814	371	436	506	867	1,097	1,318
Other Growth Indust. Exports:									
Newsprint & woodpulp	765	812	861	142	151	152	901	963	1,013
Other forest prod.	334	398	376	133	156	107	467	554	483
Chemical & fertilizers	86	112	131	75	98	98	161	210	229
Total	1,185	1,322	1,368	350	405	357	1,535	1,727	1,725
Other Exports:									
Wheat & flour	13	12	20	450	401	564	463	413	584
Other farm & fish prod.	312	260	283	200	233	252	512	493	536
Steel Mill prod.	26	49	51	18	48	56	44	97	107
Misc. manufactures	285	255	282	175	199	236	460	455	518
Total	636	576	636	843	881	1,108	1,479	1,458	1,745
Total exports	**2,367**	**2,612**	**2,879**	**1,580**	**1,739**	**1,983**	**3,947**	**4,351**	**4,863**

IMPORTS	Imports from U.S. 1954	1955	1956	Imports from Others 1954	1955	1956	Total Imports 1954	1955	1956
Capital Goods:									
Machinery & Elect. equip.	718	85	1,150	90	91	120	808	941	1,270
Transportation equip.	200	242	220	27	31	25	227	273	245
Structural steel, pipes	140	155	270	42	51	105	182	206	375
Total	1,058	1,247	1,640	159	173	250	1,217	1,420	1,890
Industrial Materials:									
Textile fibers & leather	168	181	150	122	155	190	290	336	340
Metal materials	213	280	380	92	98	155	305	378	535
Chemicals	177	208	235	29	38	40	206	246	275
Other materials	196	232	275	67	86	95	263	318	370
Total	754	901	1,040	310	377	480	1,064	1,278	1,520
Fuels	236	231	260	221	258	300	457	489	560
Consumer Goods:									
Automobiles & parts	211	302	340	23	24	40	234	326	380
Household equipment	127	149	170	44	49	60	171	198	230
Foods, beverages, & tobacco	190	201	240	260	259	280	450	460	520
Textile & other mfrs.	321	344	400	88	102	120	409	446	520
Total	849	996	1,150	415	434	500	1,264	1,430	1,650
Total Imports	**2,961**	**3,452**	**4,169**	**1,132**	**1,260**	**1,543**	**4,093**	**4,712**	**5,712**
Trade Balance	**−594**	**−840**	**−1,290**	**448**	**479**	**440**	**−146**	**−361**	**−849**

nel, and should do their purchasing of supplies, materials and equipment in Canada. Canada is losing too large a percentage of its highly trained engineers and technological scientists to the U. S. because of the fact that American corporations operating in Canada do not provide in Canada for a fair share of the research expenditure. If companies operating in Canada were to provide for a fair share in this regard, these trained men would stay in Canada and help to build up their own country, the "new deal" backers say.

Seeks Better Trade Balance

Another "new deal" change which is definitely coming shortly is an attempt to bring about a better trade balance between Canada and U. S., with informed sources suggesting that this will be one of the first pledges which the "new deal" will carry out, starting almost immediately. The unfavorable trade balance touched a maximum in 1956 when Canada's adverse balance of trade with all the nations of the world was $858,000,000 or more than double the 1955 balance. It was the fourth year in succession that there had been an adverse balance in total trade with the world. Canada's exports to the world increased in 1956 by 11.8% and Canada's imports increased by 21.2% over the preceding year. Canada's trade with the U. S. continued to rise and last year 73% of Canada's imports came from the U. S., while 60% of the exports went to the U. S. Indeed, in 1956, Canada faced what the backers of the "new deal" call "a frightening and perilous adverse balance of *(Please turn to page 674)*

Near-term and Longer Range Prospects for the BUILDING INDUSTRY

By H. F. TRAVIS

Prospects have brightened for manufacturers of building supplies. Although it would be rash to suggest revival of a building boom comparable with that experienced two or three years ago, it seems possible that the low point may have been passed. Construction in other than residential areas has been holding at a high level and promises to continue active through the remainder of this year. As a result, industry authorities are projecting a new peak this year in dollar volume. This may mean a total of $32 billion or more in new construction.

Basis for a mildly optimistic note is to be found in two developments: (1) is the announcement this month of reduced down payments on mortgages insured by the Federal Housing Administration. At the same time higher interest rates were authorized to attract larger amounts of mortgage funds. The rise to 5¼ per cent from 5 per cent is expected to enable builders to arrange financing more readily. The new minimum down payment schedule put into effect the most liberal terms permitted under new legislation. On a $10,000 home, for example, the down payment could be reduced to $300 from the previously designated amount of $700. On higher priced homes comparable reductions were authorized. and (2) is evidence of steadily mounting expenditures on rehabilitation and modernization of homes as well as commercial buildings.

Supplementing these factors has been a vigorous effort on the part of leading concerns in the building supply field to adopt economy measures. Better control of manufacturing operations has been estab-

Position of Leading Building Stocks

	1st 6 Months: Net Sales 1956 (Millions)	Net Sales 1957 (Millions)	Net Profit Margin 1956 %	Net Profit Margin 1957 %	Net Per Share 1956	Net Per Share 1957	Full Year: Earned Per Share 1955	Earned Per Share 1956	Dividend Per Share 1956	Dividend Per Share Indicated 1957	Price Range 1956-1957	Recent Price	Div. Yield %
ALPHA PORT. CEMENT W.C. (mil.) '55—$7.3; '56—$6.4	$15.6	$15.8	19.5%	14.3%	$1.74	$1.28	$2.72	$3.75	$1.50	$1.50	47 -34	37	4.0%
AMER. RADIATOR W.C. (mil.) '55—$119.5; '56—$116.0	194.9	183.2	5.8	2.9	.96	.45	2.22	1.65	1.40	1.10	24¼-14½	14½	7.5
ARMSTRONG CORK W.C. (mil.) '55—$52.3; '56—$46.3	61.5[1]	60.9[1]	6.0[1]	4.7[1]	.72[1]	.55[1]	2.81	2.56	1.50	1.50	37¾-25⅝	26	5.7
BESTWALL GYPSUM W.C. (mil.) '55—$5.5; '56—$4.6	17.5	13.9	13.3	9.6	3.27	1.87	6.18	5.22	—	[2]	77¼-39	50	—
CELOTEX W.C. (mil.) '55—$18.5; '56—$28.4	36.3	30.7	7.4	5.2	2.92	1.67	5.49	6.43	2.40	2.40	47⅞-31⅜	33	7.2
CERTAIN-TEED PROD. W.C. (mil.) '55—$27.5; '56—$22.4	38.7	46.1	2.0	1.9	.43	.37	1.70	1.13	1.25[3]	.70	14 - 8⅞	9	7.7
CONGOLEUM-NAIRN W.C. (mil.) '55—$28.1; '56—$26.6	29.2	27.2	1.4	.5	.35	.12	1.81	.59	1.20	.80	22¾-11⅞	12	6.6
CRANE CO. W.C. (mil.) '55—$115.6; '56—$121.2	79.2[1]	83.4[1]	2.5[1]	.8[1]	.80[1]	.26[1]	3.60	4.40	2.00	2.00	42⅜-28⅞	29	6.8
FLINTKOTE W.C. (mil.) '55—$26.5; '56—$18.4	50.3	53.8	4.2	4.7	1.47	1.61	3.40	3.70	2.40[4]	2.40	46½-33⅝	45	5.3
GEN. PORTLAND CEMENT W.C. (mil.) '55—$7.3; '56—$5.8	22.4	20.9	21.8	19.6	2.36	1.97	3.94	4.58	2.25	2.25	75¾-50¼	66	3.4
HOLLAND FURNACE W.C. (mil.) '55—$13.3; '56—$12.6	13.6	13.2	d1.6	d2.2	—	—	1.24	.56	.90	.60	14½- 9⅛	12	5.0
JOHNS-MANVILLE W.C. (mil.) '55—$37.2; '56—$41.2	147.3	148.0	8.1	5.8	1.87	1.20	3.67	3.50	2.25	2.25	58¾-41	46	4.8
LEHIGH PORT. CEMENT W.C. (mil.) '55—$10.8; '56—$8.3	34.7	33.9	14.4	12.2	1.32	1.09	2.96	2.82	.95	1.00	58 -35¾	38	2.6

W.C.—Working capital.
d—Deficit.
[1]—1st Quarter.
[2]—Paid 3% stk., thus far.
[3]—Plus ⅓ sh. Bestwall Gypsum.
[4]—Plus stock.

Alpha Portland Cement: Protracted strike and higher labor costs likely to intensify squeeze on profits until general advance in cement prices. Stepup in road building next year is regarded as favorable factor. A2

American Radiator: Sharp reduction in earnings anticipated this year in reflecting slower rate of residential construction and further advance in costs of materials and freight. Doubt over dividends likely to persist. B3

Armstrong Cork: Keener competition in hard surface floor coverings and other furnishings expected to continue. Promising growth potentials likely to sustain investment demand. Moderate dip in earnings projected. A3

Bestwall Gypsum: This new name in the building group evolved as a spin-off from Certain-teed Products and is regarded as one of three largest gypsum producers. Slackening in sales reflected in lower earnings. B3

Celotex: Decline in sales resulting from slower rate of home building and narrower margins finding reflection in market price. Financing to raise additional capital attests to confidence of management in growth. B3

Certain-Teed Products: Segregation of Bestwall Gypsum leaves this unit with less desirable part of business. Price advance on roofing helps restore more satisfactory margins, but outlook remains rather drab. C2

Congoleum-Nairn: Reduced sales and increased operating costs account for sharp setback in net profit. Indications point to another disappointing year. Threat to dividend accounts for backward market action. C3

Crane Co.: Although industrial valve business has been well sustained, lower volume indicated in plumbing and heating equipment. Narrower margins suggest lower earnings, but dividend rate likely to be maintained. B3

Flintkote: Diversification in cement and products other than roofing has sparked interest in stock, holding out hope of counteracting slim margins in asphalt products. Possible extra in stock a favorable factor. B1

General Portland Cement: Above-average growth prospects for area served by this company and relatively low manufacturing costs combine to give company advantage. Another year-end extra dividend considered possible. A2

Holland Furnace: Little improvement seen in prospects for sales of replacement furnaces and services, but company is regarded as a logical merger candidate which might have value in sale or liquidation. C3

Johns-Manville: Profit squeeze illustrated by decline in net in first half of more than 30 per cent despite modest increase in sales. Narrower margins on asbestos. Longer term outlook still promising. A3

Lehigh Portland Cement: Adverse effect of protracted strike and higher costs expected to find reflection in lower earnings. Faster rate of highway construction in 1958 and expansion in plant program may reverse trend. A2

RATINGS: (A)—Best Grade.
(B)—Good Grade.
(C)—Speculative.
(D)—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

Position of Leading Building Stocks—(Continued)

	1st 6 Months: Net Sales 1956 (Millions)	Net Sales 1957 (Millions)	Net Profit Margin 1956 %	Net Profit Margin 1957 %	Net Per Share 1956	Net Per Share 1957	Full Year: Earned Per Share 1955	Earned Per Share 1956	Dividend Per Share 1956	Dividend Per Share Indicated 1957	Price Range 1956-1957	Recent Price	Div. Yield %
LONE STAR CEMENT W.C. (mil.) '55—$13.4; '56—$15.0	$47.1	$48.9	15.7%	14.8%	$1.03	$ .94	$2.04	$2.23	$1.10	$1.10	40⅛-25¾	38	2.8%
MARQUETTE CEMENT MFG. W.C. (mil.) '55—$7.8; '56—$7.9	19.5	19.4	16.3	13.5	1.18	.96	2.26	2.74	1.30	1.40	40¼-29¾	34	4.1
MASONITE W.C. (mil.) '55—$18.2; '56—$15.2	45.9[5]	42.4[5]	11.7[5]	7.7[5]	3.92[5]	2.28[5]	4.42[4]	4.98[4]	1.70[3]	1.20	50½-28	31	3.8
NATIONAL GYPSUM W.C. (mil.) '55—$46.7; '56—$38.5	81.3	69.8	10.9	8.9	2.27	1.57	4.61	3.61	2.00[3]	2.00[3]	61⅞-35½	42	4.7
OTIS ELEVATOR W.C. (mil.) '55—$48.8; '56—$51.3	n.a.	n.a.	n.a.	n.a.	1.38	1.56	3.00	3.10	1.95	2.00	50¾-33¼	47	4.2
PENN-DIXIE CEMENT W.C. (mil.) '55—$9.6; '56—$10.7	21.6	17.3	16.6	9.4	1.35	.53	2.59	2.97	1.00[3]	1.20	43⅝-30¼	33	3.6
PITTSBURGH PLATE GL. W.C. (mil.) '55—$169.6; '56—$147.2	292.5	31[illegible].0	10.3	9.4	3.08	2.95	6.26	5.62	2.75	2.75	96¼-74	81	3.3
PRATT & LAMBERT W.C. (mil.) '55—$6.6; '56—$6.9	10.0	10.0	6.9	5.7	3.46	2.86	5.65	6.07	3.25	3.25	58 -50½	55	5.9
RUBEROID CO. W.C. (mil.) '55—$23.7; '56—$23.0	37.3	37.2	4.4	5.1	1.13	1.29	3.05	2.90	2.00	1.60	38¾-28	33	4.9
SHERWIN-WMS. CO. W.C. (mil.) '55—$76.5; '56—$80.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	8.89[4]	10.49[4]	4.75	5.00	127½-102	119	4.2
U. S. GYPSUM W.C. (mil.) '55—$84.8; '56—$83.0	137.3	120.5	15.1	15.5	2.56	2.32	4.98	5.01	2.50	2.50	77 -51¼	61	40
U. S. PLYWOOD W.C. (mil.) '55—$58.3; '56—$59.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4.60[2]	3.24[2]	2.20	2.00	51⅞-30½	33	6.0
YALE & TOWNE MFG. W.C. (mil.) '55—$44.7; '56—$51.7	62.2	65.7	4.5	4.1	1.51	1.24	2.50	2.79	1.35	1.50	34⅝-24⅝	31	48

n.a.—Not available.
[1]—1st Quarter.
[2]—Years ended 4-30-56 & 4-30-57.
W.C.—Working capital.
[3]—Plus stock.
[4]—Years ended August 31.
[5]—9 mos. ended May 31.

Lone Star Cement: Benefit of expansion and modernization of plants shown in relatively better showing in spite of labor troubles. Net profit may compare favorably with 1956 showing. Dividend adequately covered. A1

Masonite: Despite earnings drop in fiscal year just ending, reflecting higher distribution costs, prospects are considered promising for growth in demand for hardwood products. Continuance of $1.20 dividend indicated. B3

National Gypsum: Keen competition accounts for lower margins, but volume has been sustained by demand for products in rehabilitation projects. Materials reserves strengthened. Modest stock dividend possible. B3

Otis Elevator: Upsurge in office building construction and modernization stimulates market for elevators. Industrial truck sales gain impetus as labor costs mount. Moderate increase in earnings seen for 1957. A1

Penn-Dixie Cement: Shutdown in production caused by long strike destined to reduce earnings, but price increases slated for late 1957 should assure better results next year. Big highway program bolsters market. B3

Pittsburgh Plate Glass: Strong growth trend in chemicals and other lines not dependent on building adds to investment potential. Better auto year should help demand for glass. Safe margin for dividends. A1

Pratt & Lambert: Potential market for paints greatly increased by enlargement of suburban residential areas. Longer term growth appears promising. Excellent dividend record adds to investment stature. A1

Ruberoid: Introduction of operating economies helps retard earnings decline. More satisfactory margins obtained on asphalt roofing. Extra dividend again this year seems possible if net profit holds at 1956 level. B2

Sherwin-Williams: Development of new types of paint readily applicable by home owners helps spur sales in many new suburban markets. Indications point to continued expansion in volume. Dividend rate remains modest. A1

U. S. Gypsum: Strong demand for gypsum products in repair and renovation projects points to relatively satisfactory volume despite decline in residential building. Earnings may hold near 1956 level. A2

U. S. Plywood: Keen competition in plywood field, accompanied by price-cutting from time to time, holds down profit margins. Another moderate setback in earnings seems likely, but dividend rate should hold. B3

Walworth Co.: Slackening in demand for industrial valves, due in part to working off of inventories in distribution channels, expected to retard growth this year. Narrower margins may depress earnings. C3

Yale & Towne Mfg.: Sales of materials handling equipment becoming increasingly important, minimizing effect of competition in hardware. Diversification spurs growth. Further dividend liberalization possible. B2

RATINGS: **(A)—Best Grade.**
(B)—Good Grade.
(C)—Speculative.
(D)—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

lished in striving for more satisfactory profit margins in the face of a considerable contraction in volume.

The ¼ of one percent increase in the FHA interest rate should prove helpful in attracting additional funds into the mortgage market. Of course, the cost to the home buyer will be slightly higher. Even so, arrangements for home buying have been modernized to such an extent that most families having a reasonably assured income sufficient to provide the necessary protection for monthly payment schedules can obtain backing for housing purchases. Terms are far less onerous than a generation ago, when individuals were confronted with the necessity of bargaining with banks for mortgage funds.

Realities vs. Statistics

While the future appears more cheerful therefore, current operating statistics give a different picture. Most manufacturers of building materials have experienced reduced earnings in the first six months of 1957. Some have felt the pinch of lower sales volume as well as narrower margins, while others have been able to maintain a relatively high total of shipments but have been compelled to accept business at nominal margins. This situation is expected to improve, however, now that excessive inventories of finished goods in many areas have been eliminated.

Divergent trends evident in the construction field a year ago still are as noticeable as ever. Producers of materials used largely in residential work, such as lumber, gypsum board and lath, heating and plumbing, etc., have felt the setback in housing construction, while manufacturers of heavy material, including structural steel, cement, brick, electrical equipment and the like, have benefited from gains in public works and industrial plants. Demand for cement failed to come up to expectations because of long delays in awarding contracts for road construction under terms of last year's highway legislation.

Funds needed for financing hospitals, schools, municipal buildings and other public projects have become available in steadily increasing amounts in the first half of 1957. Authorization for public works running into the millions were obtained at last November's elections, and many programs set in motion then have begun to take shape. Evidence of the rising tide in public works is found in the fact that of total contracts awarded in June publicly owned projects accounted for 41 per cent, compared with 37 per cent for the full six months and with only 32 per cent in the first half of 1956. Practically all kinds of non-residential buildings registered gains in contract awards in the first half of this year.

Home Building to the Rescue?

Although activity in the residential field has not signified a reversal in the downtrend that began two years ago, it has tapered off to a level where support might be anticipated. On the basis of current projections, it is believed that non-farm dwelling starts may approximate 950,000 this year, compared with about 1,093,000 in 1956, not including homes constructed in public housing projects. This year's total may register a decline of between 25 and 30 per cent from the 1955 top of slightly more than 1.3 million starts (or 1,328,900 counting public projects). In dollar volume residential work has not declined so sharply as suggested by data on individual housing starts. Costs naturally have increased with the result that expenditures will be higher in relation to average costs in previous years. Moreover, there has been a prominent trend toward larger homes involving greater costs.

Construction expenditures in the residential field are due to rise importantly this year in taking care of rehabilitation work. Extensive damage to communities in the Southwest from floods and tornados in recent months will require more than the average activity on reconstruction projects. In addition, outlays for maintenance and modernization of homes built since World War II are growing rapidly. Many such dwellings have deteriorated more rapidly than might have been expected from ordinary wear.

Not in the Figures

Industry authorities contend that construction expenditures have been underestimated in recent years because many home owners have taken steps to do their own repairs. Modernization projects and painting jobs have been accomplished without records being taken in the form of contracts with builders. A good deal of work of this kind is being done without special financing. Materials are purchased by the home owner from local distributors.

It might be supposed that demand for homes would diminish for a time now that family formations show signs of declining for another two or three years. Nevertheless because personal income continues to climb and because many families have accumulated substantial equities in their old homes, they are able to satisfy their desires to obtain more comfortable quarters. Real estate dealers report that a high percentage of inquiries for new houses comes from families already owning homes who need larger dwellings or who can afford more "dignified" homes in new developments.

Another of the hopeful aspects of the outlook for building is the comparatively low ratio of vacancies. This suggests that total housing available for a growing population is not greatly in excess of requirements. In view of the continued uptrend in employment and in personal income, evidenced in government statistics, and the sharp contraction in new housing starts this year, it seems reasonable to suppose that demand and supply may come closer to balance by the beginning of 1958.

As pointed out previously, residential building still is slowing down, but the rate of decline has slackened and reduced volume of new work has been offset to a considerable extent by a relatively high rate of repair activity. Available supplies of materials appear somewhat greater than actually are needed, with the result that in many lines competitive conditions have reduced profit margins. Accordingly, while results for 1957 are not likely to evoke enthusiasm, things should take a turn for the better in 1958.

While it is true that housing activity is important in that this category represents on the average about one-third of the total construction picture, one should keep in mind that apartments and other multiple-family buildings fall in the residential field and take a (*Please turn to page* 673)

Changes Ahead For
Machinery and Tool Makers

By GEORGE W. MATHIS

Coming months are expected to see a slower pace in machinery and machine tools along with a more cautious attitude toward representative stocks. Despite the urge to mechanize operations wherever possible as labor costs rise, there comes a time when it is uneconomic to put capital into machinery unless the new equipment can pay for the installation in economies within a relatively short time. Moreover, rising costs of borrowing funds tend to exert a restraining influence on expansion programs.

Investors already have demonstrated concern over the outlook for most stocks in this segment of the capital goods industry, but even so numerous issues still command historically high market appraisals of earning power. It is a question as to whether the prospect of a contraction in shipments in 1950 has been fully discounted. Absence of outright pessimism toward the group can be explained by the fact that shipments for the machinery and machine tool industries still are rising moderately even though incoming business has turned downward.

With some exceptions, companies in these categories are expected to report relatively good earnings for 1957 and more liberal dividend actions may be anticipated here and there. Nevertheless, on basis of unfilled orders and the rate of new business being booked it would seem logical to look for a decline in shipments in the last half of 1957 and certainly in the early part of 1958. Thus the environment in the coming twelve months may prove less reassuring than that experienced recently. The market then must determine whether recent hesitancy toward the group has been sufficient to take into account the possibility of reduced earnings next year.

Conditions may change quickly, it is true, for prospects of machine tool makers are greatly influenced by military expenditures. Pressure on Washington to trim spending as much as possible and eliminate all unnecessary projects undoubtedly contributed to contract cancellations in the aircraft procurement program that resulted in a shrinkage in the backlog of machine tool makers. It is conceivable that this evidence of economy in military spending may be reversed later in the year. Any relaxation in credit stringency might encourage resumption of plant modernization work requiring installation of heavy equipment.

Generalizations such as expressed here are of little

Leading Machine Tool Companies

	1st 6 Months: Net Sales 1956 (Millions)	Net Sales 1957 (Millions)	Net Profit Margin 1956 %	Net Profit Margin 1957 %	Net Per Share 1956	Net Per Share 1957	Full Year: Earned Per Share 1955	Earned Per Share 1956	Dividend Per Share 1956	Dividend Per Share Indicated 1957	Price Range 1956-1957	Recent Price	Div. Yield
BLACK & DECKER W.C. (mil.) '55—$17.8; '56—$18.7	$35.5[1]	$39.2[1]	9.7%	10.5%	$3.80[1]	$4.23[1]	$4.10	$5.17	$1.25[3]	$1.40	64¾-32⅞	56	2.5%
BULLARD W.C. (mil.) '55—$10.6; '56—$9.0	10.7[2]	9.5[2]	3.3[2]	1.7[2]	.48[2]	.22[2]	d1.41	2.06	1.00	1.20	38⅜-18⅝	19	6.3
CHICAGO PNEUM. TOOL W.C. (mil.) '55—$37.0; '56—$39.4	19.1[2]	22.7[2]	12.4[2]	13.5[2]	.60[2]	.72[2]	1.87	2.44	.95	1.20	29¼-13½	27	4.4
CINCIN. MILLING MACH. W.C. (mil.) '55—$39.3; '56—$43.9	67.9	79.3	6.5	5.6	2.55	2.55	2.47	4.64	1.60	1.60	55¼-35⅞	37	4.3
EX-CELL-O W.C. (mil.) '55—$24.5; '56—$36.6	65.4	88.1	9.7	9.2	1.80	2.25	2.70	4.01	1.00	1.50	51¾-31⅛	39	3.8
GREENFIELD TAP & DIE W.C. (mil.) '55—$5.5; '56—$7.1	7.8	9.2	10.0	8.4	1.61	1.54	2.40	2.89	1.25	1.35	22⅞-15⅜	19	7.1
INGERSOLL-RAND W.C. (mil.) '55—$109.5; '56—$121.9	n.a.	n.a.	n.a.	n.a.	1.20[2]	1.48[2]	4.54	5.96	3.50	3.50	88½-59	80	4.3
MONARCH MACH. TOOL W.C. (mil.) '55—$6.5; '56—$6.2	8.3	9.0	5.8	7.5	1.15	1.61	.08	2.34	1.35	1.35	28¾-19⅝	21	6.4
NATIONAL ACME W.C. (mil.) '55—$22.0; '56—$23.6	n.a.	n.a.	n.a.	n.a.	4.04	2.83	6.41	8.60	5.00	5.00	82 -60	62	8.0
VAN NORMAN INDUST. W.C. (mil.) '55—$10.5; '56—$20.4	16.3	25.5	2.4	1.7	.54	.23	1.09	1.10	1.00	.40	17⅜- 8	8	5.0

(W.C.)—Working Capital.
(d)—Deficit.
(n.a.)—Not available.

[1]—9 mos. ended June 30.
[2]—1st Quarter.
[3]—Plus Stock.

MACHINE TOOL COMPANIES

Black & Decker: Popularity of do-it-yourself devices and necessity for using labor saving tools in small industries account for steady sales and earnings gains. Extra in stock anticipated. B1

Bullard Co.: Disruption in manufacturing caused by introduction of new models of tools accounts for earnings decline. Highly cyclical trends contribute to wide swings in orders and shipments. C3

Chicago Pneumatic Tool: Strong demand for automatic tools in construction and road building finding reflection in increased output and higher earnings. Continued liberal dividend policy indicated. B1

Cincinnati Milling Machine: As largest factor in machine tools required in mass production industries, company has prospered from automation trend. Earnings rising despite lower orders. A2

Ex-Cello-O: Despite slackening in orders for precision products in aviation industry and reduction in inventories in consumer channels for cutting tools, etc., company is favored by growth in other areas. A1

Greenfield Tap & Die Demand for company's products tends to follow general industrial activity fluctuations. Sales of "perishable" tools holding well. Earnings and dividends likely to hold at 1956 level. C1

Ingersoll-Rand: Sales expected to maintain trend in general industrial and earnings may improve moderately. Large "other income" a stabilizing factor. Extra dividend may supplement increased quarterly rate. A1

Monarch Machine Tool: Leading maker of special purpose lathes and accessories used in mass production industries should fare well in meeting need for labor-saving equipment. Earnings in uptrend. B1

National Acme: Major supplier of multiple-spindle automatic screw machines needed in mass production techniques. Orders tend to fluctuate with business cycles. Slight dip in earnings may not affect dividend. B3

Van Norman Industries: Although addition of new customers in auto industry is reassuring, margins remain unsatisfactory in some activities and earnings may show little improvement. Dividend seems doubtful. C3

RATINGS: A—Best-grade. B—Good-grade.
C—Speculative. D—Unattractive.

[1]—Improved earnings. [2]—Sustained earnings trend. [3]—Lower earnings trend.

help in appraising prospects for individual companies in groups where operating results vary so widely. After presentation of information indicating the current trend among machinery manufacturers and machine tool companies we shall take a closer look at several representative companies. In the meantime, it may be noted that the discussion is supplemented by a compilation of latest available statistics and thumbnail comments on many of the leading concerns in the two groups.

Unfilled orders of machinery makers at the beginning of this year were up substantially over those on hand a year earlier, but the backlog expanded little in the final quarter of last year and in the early months of 1957. It has been falling steadily since the first quarter as shipments have exceeded incoming business. Capital expenditures by industry had been estimated by government agencies early in the year as likely to register an increase of 6.5 per cent over 1956, but this figure now seems too high. This year's total may closely approximate 1956 spending on capital goods.

Labor costs still are rising, however, and as manufacturing costs mount, the incentive to replace manual operations with mechanized equipment is accelerated. Accordingly, it must be recognized that as long as the labor market is tight and costs continue to climb, there will be reason for attempting to find equipment that will multiply worker productivity.

Leading Machinery Manufacturing Companies

	1st 6 Months: Net Sales 1956 (Millions)	Net Sales 1957 (Millions)	Net Profit Margin 1956 %	Net Profit Margin 1957 %	Net Per Share 1956	Net Per Share 1957	Full Year: Earnings Per Share 1955	Earnings Per Share 1956	Dividend Per Share 1956	Dividend Per Share Indicated 1957	Price Range 1956-1957	Recent Price	Div. Yield
AMERICAN MACH. & FDRY. W.C. (mil.) '55—$47.8; '56—$62.2	$43.4[1]	$59.0[1]	5.5%	5.8%	$ .85[1]	$1.06[1]	$1.64	$3.00	$1.05[2]	$1.20	43¾-24¼	41	2.9%
BLAW-KNOX W.C. (mil.) '55—$29.7; '56—$35.5	37.6[1]	46.4[1]	3.7[1]	4.4[1]	.90[1]	1.23[1]	1.56	4.16	1.20[2]	1.20	46¾-28½	38	3.1
BUCYRUS-ERIE W.C. (mil.) '56—$31.1; '56—$44.7	20.5[1]	24.7[1]	8.7[1]	6.9[1]	.16[1]	.92[1]	4.19	3.64	2.40	2.40	56¾-33⅛	38	6.3
BUFFALO FORGE W.C. (mil.) '55—$9.3; '56—$9.9	14.4	16.0	5.0	5.4	1.13	1.23	2.35	3.07	2.00	2.00	36¾-27	31	6.4
CLARK EQUIPMENT W.C. (mil.) '55—$41.5; '56—$39.7	75.7	74.0	6.0	5.8	2.01	1.87	4.23	4.11	2.12	2.12	75½-39	59	3.5
COOPER-BESSEMER W.C. (mil.) '55—$13.8; '56—$17.8	26.4	36.9	6.4	7.5	1.31	2.15	1.34	3.72	1.00[2]	1.60	39¾-10⅝	32	5.0
FAIRBANKS, MORSE W.C. (mil.) '55—$37.7; '56—$40.0	68.3	65.1	1.9	2.2	.96	1.35	2.21	2.81	1.40	1.65	65 -38⅛	44	3.7
FOSTER-WHEELER W.C. (mil.) '55—$21.3; '56—$21.0	47.4	75.4	1.2	1.4	1.02	1.84	2.19	1.81	1.60	1.60	67¾-30¼	59	2.7
GARDNER-DENVER CO. W.C. (mil.) '55—$20.9; '56—$33.4	30.5	35.2	11.1	11.3	1.88	2.20	2.74	4.05	1.27	1.72	46⅞-23	44	3.9
JOY MFG. W.C. (mil.) '55—$42.2; '56—$48.4	89.8[3]	100.0[3]	8.9[3]	9.1[3]	4.50[3]	5.10[3]	3.18	6.10	2.80	3.40	76¾-35⅛	62	5.4
LINK BELT W.C. (mil.) '55—$48.5; '56—$54.7	39.9[1]	41.7[1]	6.0[1]	6.1[1]	1.31[1]	1.37[1]	4.16	5.95	3.15	3.75	76½-47½	68	5.5
MESTA MACHINE W.C. (mil.) '55—$18.1; '56—$18.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.65	4.36	3.00	3.00	64¼-48	58	5.1
UNITED ENG. & FDRY. W.C. (mil.) '55—$15.5; '56—$18.5	n.a.	n.a.	n.a.	n.a.	.79	1.10	.87	1.28	.80	.80	16⅞-13¾	16	5.0
WORTHINGTON CORP. W.C. (mil.) '55—$65.2; '56—$68.1	n.a.	n.a.	n.a.	n.a.	3.03	3.10	5.22	6.11	3.00	2.50[2]	68⅜-41⅛	64	3.9

(W.C.)—Working Capital.
(n.a.)—Not available.

[1]—1st Quarter.
[2]—Plus Stock.
[3]—9 months ended June 30.

MACHINERY MANUFACTURING

American Machine & Foundry: Growing demand for automatic packaging machines contributing to uptrend in volume. Rental income on pinspotter bowling equipment growing rapidly. Earnings rising. B1

Blaw-Knox: Leading builder of specialized equipment for steel, construction and other industries. Economies obtained in modern machinery point to continued uptrend in volume. Earnings rising. B1

Bucyrus-Erie: Expansion in road building should spur demand for excavating machinery. Slower pace indicated in construction work next year. Earnings recovery affords ample dividend coverage. B1

Buffalo Forge: Increasing emphasis on equipment for air filtering and cooling in factories expected to provide large backlog. Uptrend in earnings adequate to cover liberal dividend rate. B1

Clark Equipment: Necessity for using more machinery in materials handling should assure expanding market for industrial trucks. Construction machinery division shows promise. Better earnings indicated this year. A1

Cooper-Bessemer: Strong demand for marine and oil field equipment has kept backlog and deliveries high. Recent earnings point to continued better year-to-year comparisons. C1

Fairbanks-Morse: Despite series of internal management controversies, company has maintained strong competitive position. Shares boosted to high levels in proxy contest. Earnings indicated at peak. B1

Foster-Wheeler: Sharp improvement in earnings indicated from more satisfactory margins on recent contracts. Backlog continues to expand. Optimists hopeful of more liberal dividend payments. B1

Gardner-Denver: Good demand for machinery in mining, oil and construction industries accounts for maintenance of high level of sales. Earnings expected to compare favorably with 1956 peak. B1

Joy Manufacturing: Progress in development of labor-saving coal mining machines accounts for uptrend in volume. Equipment essential to meet rising labor costs. Modest rise in earnings indicated this year. B1

Link Belt: Broad line of mechanical power transmission and materials handling equipment enables company to serve many industries requiring labor-saving machinery. Small extra dividend possible. B1

Mesta Machine: Prosperity of steel industry and need for adoption of modern manufacturing processes contributing to growth in order backlog. Increased facilities expected to boost earnings. B1

United Engineering & Foundry: Benefits of expansion and improvement program showing up in increased earning power. Best earnings since 1950 indicated and may encourage hope of dividend boost. B1

Worthington Corp.: Strong demand for heavy machinery in industrial plants for temperature control, refrigeration, power transmission, etc., points to further earnings gains and modest dividend rise. B1

RATINGS: A—Best-grade. B—Good-grade.
C—Speculative. D—Unattractive.

[1]—Improved earnings trend. [2]—Sustained earnings trend. [3]—Lower earnings trend.

Research is making available new types of machinery that make older models obsolete. In the steel industry, for example, modern mills embodying numerous automatic operations, have been installed that are capable of producing materials that required eight or ten times as many workmen using older manufacturing methods.

Agitation for economies in military spending has manifested itself more forcibly among machine tool concerns than in other segments of industry. The sharp rise in cancellations of orders for new machines experienced in June traced to adoption of conservative policies by the Air Force. As a result, cancellations for that month jumped to nearly $11 million from an average of only about $4.5 million in preceding months. Incoming orders registered a modest increase in June over the preceding month, but remained more than 30 per cent below the fig-

ure for the corresponding month of 1956. Bookings for the first half of 1957 fell some 38 per cent from the total for the first six months last year, according to the National Machine Tool Builders Association.

Air Force Cancellations Reduce Backlogs

Reflecting improvement in operating efficiency and abundance of raw materials, shipments of machine tool makers mounted sharply in the first six months. June saw volume of $83 million, up about 9 per cent over a year ago and almost 6 percent over the previous month, while for the first half year total shipments rose 18 per cent to $492.7 million. For the full year it is estimated that shipments may set an all-time peak of about $900 million as manufacturers fill orders booked in the last two years. The shrinkage in new orders may bring the estimated total volume for the next year to about $750 million—a rate that may mean narrowing of margins. June bookings of less than $43 million after cancellations was at a rate of only about $500 million annually. Probably a good many concerns would have difficulty in breaking even if the industry's production schedule should fall as low as $500 million.

Industry Hopes Hinge on New Autos

Industry officials are hopeful of a turn for the better by the fourth quarter. Automotive manufacturers are expected to place large orders with specialty machine tool makers, some of whom have continued to maintain extensive backlogs right through the year on highly automated machines offering tremendous savings in manufacturing costs. Intimations that some car manufacturers are about to introduce new types of engines point to the possibility of large orders for machine tools before the year is out. The prospects may brighten before the turn of the year, especially in the environment of record 1957 earnings for many companies.

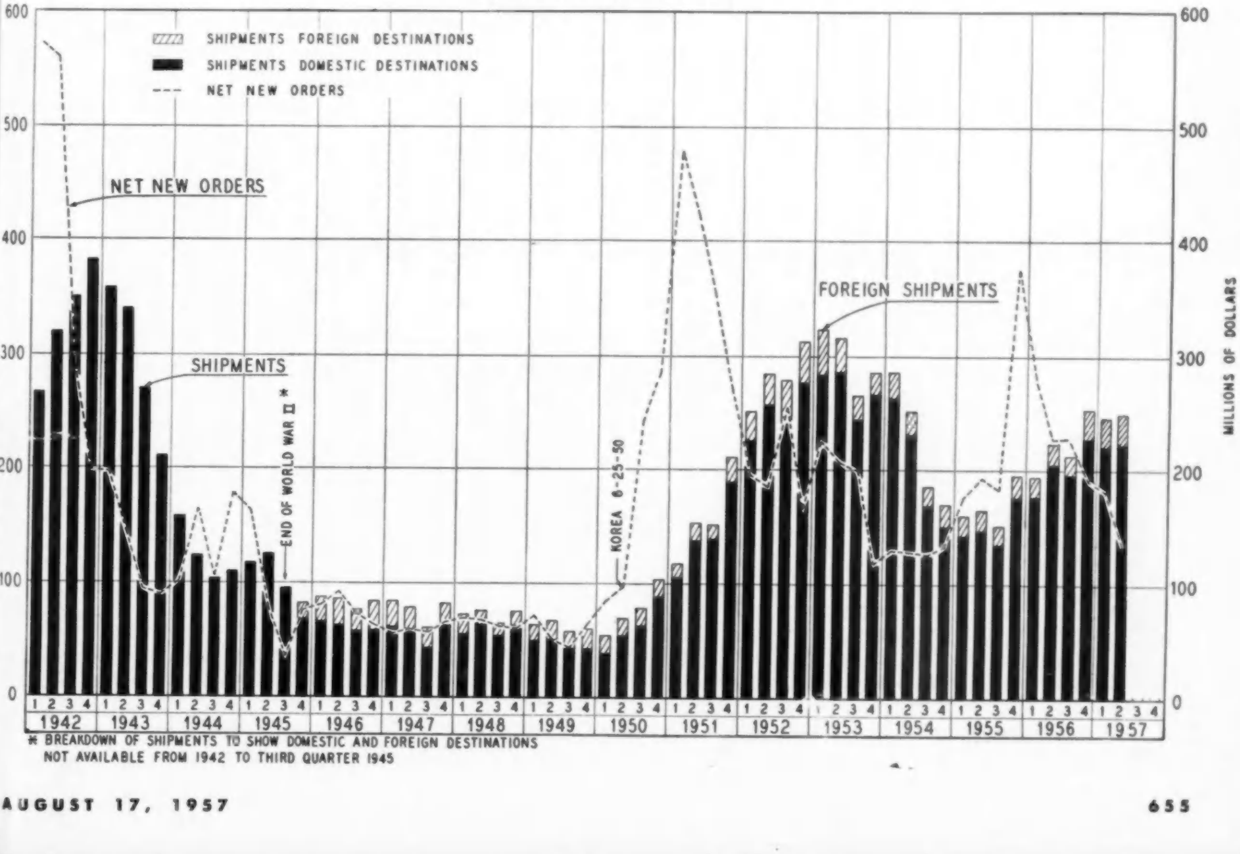
In so broad a group of companies, serving diversified industries, it is not surprising to find a complexity of trends in earnings and sales. It is more important in the machinery group to emphasize selectivity than in many other categories. For that reason, a better idea of prospects may be gained from a closer look at several individual concerns engaged in differing phases of this broad industry.

Company Comments

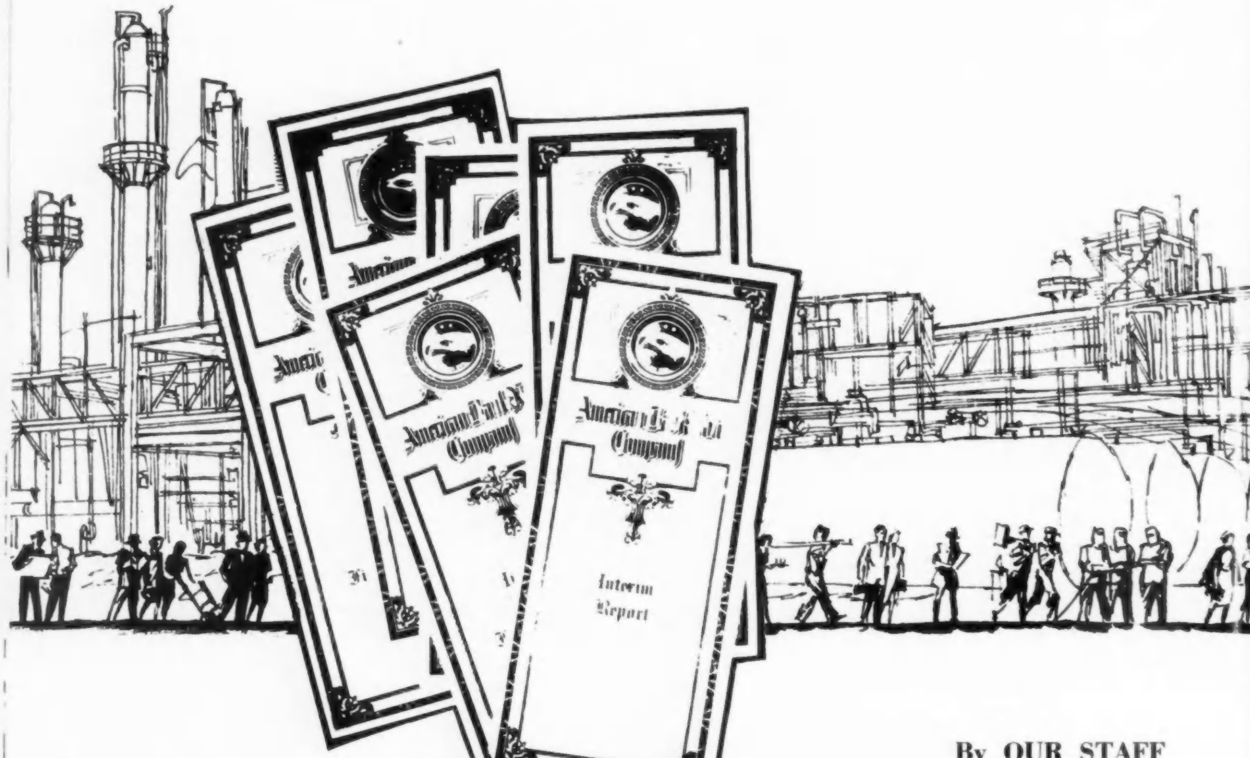
Consider **Black & Decker**, for example, which caters not only to a growing market made up of homeowners interested in taking care of their own repairs but also to many industries that are utilizing power tools to trim labor costs. The company makes a comprehensive line of electric drills, saws and accessories that have appealed especially to individuals undertaking "do-it-yourself" projects around the house. Intensive cultivation of the domestic market and exploitation of overseas areas has enabled the company to boost sales to a record high for the first nine months of the fiscal year ending next September 30. *(Please turn to page* 671)

QUARTERLY SHIPMENTS AND NET NEW ORDERS OF MACHINE TOOLS

(METAL CUTTING TYPES ONLY)



* BREAKDOWN OF SHIPMENTS TO SHOW DOMESTIC AND FOREIGN DESTINATIONS NOT AVAILABLE FROM 1942 TO THIRD QUARTER 1945



By OUR STAFF

SPECIAL SECTION OF MIDYEAR DIVIDEND FORECAST

SURVEY OF 36 UNCLASSIFIED STOCKS

Since there are many companies that do not readily fall into specific industrial groups, this special section is prepared as a round-up and evaluation of unclassified or specialty companies.

Understandably, investor attention is usually focused on major stock groups, because developments that affect a whole industry are generally more newsworthy than the individual fortunes of specific companies. For this reason, many important firms escape investor notice, although they may be better investment media just because of their uniqueness.

Included in the list are a number of firms which make up smaller, or in some cases sub-industries, that do not warrant the full attention we give to the major industrial groupings. Halliburton Oil Well Cementing and National Supply, for instance, are important adjuncts to the oil industry, but the field is a limited one, tied closely to developments in the petroleum field. Similarly, Anderson, Clayton, Spencer Kellogg and Archer Daniels Midland, are each important processors of vegetable oils, but the industry is limited in scope.

Other are purely specialty companies, often well known, but just as frequently with little investor interest. Thus Hershey Chocolate is virtually a household word, but the limited supply of stock in the hands of the public keeps interest low.

As in any grouping, however, changes are constantly taking place. Some of last year's companies had to be removed because they are now members of major industrial groups. Certainly this will be true again next year. For that reason, as much as any other, we feel it valuable to focus the spotlight on at least 36 of the many possible firms that are otherwise unclassifiable. Dividend comments and ratings are appended in the tables that follow.

Survey of 36 Unclassified Stocks

	1st 6 Months: Net Sales 1956 (Millions)	1st 6 Months: Net Sales 1957 (Millions)	Net Profit Margin 1956 %	Net Profit Margin 1957 %	Net Per Share 1956	Net Per Share 1957	Full Year: Earned Per Share 1955	Earned Per Share 1956	Dividend Per Share 1956	Dividend Per Share Indicated 1957	Price Range 1956-57	Recent Price	Div. Yield %
AMER. CHAIN & CABLE W.C. (mil.) '55—$28.6; '56—$31.8	$ 29.8[3]	$ 31.4[3]	6.0%	6.7%	$1.71[3]	$1.92[3]	$5.75	$6.80	$2.50[2]	$2.50	64¼-38½	58	4.3%
AMERICAN CHICLE W.C. (mil.) '55—$22.4; '56—$21.5	n.a.	n.a.	n.a.	n.a.	2.31	2.55	4.19	4.56	3.00[2]	3.00	61 -53¼	59	5.0
AMER. SEATING W.C. (mil.) '55—$14.2; '56—$13.0	5.3[3]	4.8[3]	2.8	d.7	.23[3]	d.05[3]	3.59	2.77	1.50	1.20	36⅝-26¼	27	4.4
ANDERSON CLAYTON W.C. (mil.) '55—$104.3; '56—$111.1	382.5[4]	511.3[4]	2.0	2.2	2.40[4]	3.52[4]	2.51	3.82	2.00	2.00	50½-32½	46	4.3
ARCH.-DANIELS-MID. W.C. (mil.) '55—$48.5; '56—$50.7	n.a.	n.a.	n.a.	n.a.	2.89[1]	2.80[1]	3.49	3.61	2.00	2.00	41¼-35¼	36	5.5
BABCOCK & WILCOX W.C. (mil.) '55—$85.3; '56—$106.8	138.7	181.4	5.1	4.7	1.40	1.46	2.62	2.74	1.00[2]	1.00[2]	47½-31⅝	41	2.4
BRUNSWICK BALKE W.C. (mil.) '55—$17.0; '56—$17.0	17.1	45.3	2.2	2.7	.67	2.26	2.52	6.15	1.00[2]	1.00	75½-25⅜	71	1.4
CARBORUNDUM CO. W.C. (mil.) '55—$29.4; '56—$32.1	51.2	55.5	6.9	5.5	2.06	1.78	3.01	3.68	1.60	1.60	51¼-31½	43	3.7
CONSOL LAUNDRIES W.C. (mil.) '55—$2.1; '56—$.1	n.a.	n.a.	n.a.	n.a.	.97	.97	1.85	2.04	1.25[2]	1.25	22⅝-15	16	7.8
CROWN CORK & SEAL W.C. (mil.) '55—$35.0; '56—$34.5	59.7	60.7	1.4	—	3.24	d.11	1.05	d.14	.20	—	18⅜-11⅜	15	—
DIAMOND MATCH W.C. (mil.) '55—$55.7; '56—$41.5	31.5[3]	30.6[3]	6.7	5.9	.71[3]	.60[3]	3.02	3.04	1.80	1.80	44⅞-31¼	32	5.6
EASTMAN KODAK W.C. (mil.) '55—$238.5; '56—$264.0	325.1	347.9	11.9	11.5	2.11	2.09	4.66	4.89	2.65	2.65[2]	115 -75¾	103	2.5

W.C.—Working capital.
d—Deficit.
n.a.—Not available.

[1]—9 mos. ended Mar. 31.
[2]—Plus stock.
[3]—1st Quarter.
[4]—6 months ended Jan. 31.

American Chain & Cable: Sales volume and earnings held well in first quarter, but rising costs reduced margins. Moderately better earnings expected in third quarter, but no change seen in dividends. (B-2)

American Chicle: This well regarded, second largest producer of chewing gum has again scored a quarterly earnings advance. Sales, not published, have probably advanced. The $3.00 dividend is the least to be expected. (A-1)

American Seating: Company is major producer of school, church and other public building seating equipment. Future seems bright in view of rising school population, but failure of major programs to get started has held back current earnings. Second quarter earnings have not yet been released but they are not expected to match last year's second quarter. A 5c deficit was incurred in the first quarter of 1957. Further dividend cuts possible. (B-3)

Anderson, Clayton: Company is the dominant cotton merchandising organization, and an important ginner and refiner of vegetable oils. Exceptional activity in cotton connected with surplus disposal program buoyed fiscal 1957 earnings, although full year results are not yet out. No change in dividends expected as lower earnings are expected in 1958. (B-2)

Archer-Daniels-Midland: A major processor of agricultural products, and especially flaxseed and soy beans, recent price weaknesses have held margins down. For first nine months drop in net was moderate, but may reverse as new acquisitions contribute to total revenues. (C-2)

Babcock & Wilcox: Company has been a major beneficiary of heavy capital spending, especially for steam generating equipment. Active participatio in atomic energy and naval programs lends some long range earnings stability. Moderate earnings rise in first half should continue through rest of year, and the $1.00 cash dividend is the least to be expected. (B-1)

Brunswick-Balke-Collender: Improved rental revenues from bowling equipment and larger sales of other sports material has resulted in sharp earnings improvement. Defense business is moderate, contributing 10% to sales. Continued earnings betterment likely for balance of the year. Some dividend increase is possible (B-1)

Carborundum: Well established abrasives producer is in the process of broadening product lines. Company is one of the few processors of zirconium and hafnium under contract to the government. Sales advances should continue but higher costs should keep net under a year ago, and dividends unchanged. (B-2)

Consolidated Laundries: With most of company's activities confined to commercial laundering, volume and margins have been steady in recent years. Slightly higher sales but lower margins should lead to little change in earnings. (C-2)

Crown Cork & Seal: Increasing competition combined with higher costs are seriously affecting margins despite maintenance of sales levels. Full year earnings will be down sharply from last year, although the first half deficit should be overcome. No early resumption of dividends likely. (C-3)

Diamond Match: Basic match business continues good, but weakened lumber prices and adverse conditions in the building trades have held back earnings growth. Company is well situated, but earnings and dividend betterment must await better trade conditions and more balanced supply-demand relaionship for wood products. (B-3)

Eastman Kodak: Slightly lower profit margins offset sales gains and earnings eased slightly in the first half. Nevertheless, this major producer of photographic equipment, with important diversification in chemicals and electronics should do well in the balance of the year. Earnings should exceed the $4.89 per share earned last year, and dividends should at least equal 1956 rate. (A-1)

RATINGS: (A)—Best Grade.
(B)—Good Grade.
(C)—Speculative.
(D)—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

Survey of 36 Unclassified Stocks—(Continued)

	1st 6 Months: Net Sales 1956 (Millions)	Net Sales 1957 (Millions)	Net Profit Margin 1956 %	Net Profit Margin 1957 %	Net Per Share 1956	Net Per Share 1957	Full Year: Earned Per Share 1955	Earned Per Share 1956	Dividend Per Share 1956	Dividend Per Share Indicated 1957	Price Range 1956-57	Recent Price	Div. Yield %
FERRO CORP. W.C. (mil.) '55—$14.1; '56—$13.5	$ 26.1	$ 27.7	5.0%	3.1%	$2.04	$1.27	$3.91	$3.64	$1.60	$ .80[2]	39½-26¼	27	2.9%
FILTROL CORP W.C. (mil.) '55—$8.4; '56—$12.7	n.a.	n.a.	n.a.	n.a.	2.19	1.66	4.23	4.16	1.80	1.80	91¾-53	54	3.3
GILLETTE CO. W.C. (mil.) '55—$34.1; '56—$33.3	102.9	93.8	15.7	13.8	1.75	1.40	3.13	3.40	2.25	2.25	54½-38½	39	5.7
GLIDDEN CO. W.C. (mil.) '55—$47.1; '56—$35.6	166.3[1]	168.4[1]	3.4[1]	3.2[1]	2.48[1]	2.34[1]	3.10	3.55	2.00	2.00	41⅛-34¼	36	5.5
GRACE (W. R.) & COMPANY W.C. (mil.) '55—$129.8; '56—$108.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4..6	4.30	2.30	2.40	60¼-44¾	55	4.3
HALLIBURTON O. W. C. W.C. (mil.) '55—$23.9; '56—$47.9	n.a.	72.0[3]	n.a.	9.1[3]	2.14[3]	1.81	4.96	5.08	2.20	2.40	92 -58½	71	3.3
HERSHEY CHOC. W.C. (mil.) '55—$50.8; '56—$55.7	39.7[4]	n.a.[4]	6.4	n.a.	1.02[4]	1.84[4]	4.23	5.17	3.00	3.00	61 -45¾	60	5.0
HERTZ CORP. W.C. (mil.) '55—$.8; '56—$1.5	12.3[4]	16.7[4]	5.7	5.5	.48[4]	.51[4]	1.84	2.63	1.00[2]	1.00	42⅛-27¼	41	2.4
INTERNATIONAL SALT W.C. (mil.) '55—$6.3; '56—$7.0	n.a.	n.a.	n.a.	n.a.	5.40	4.54	10.08	10.76	5.50	5.50	144 -94	112	4.9
JOHNSON & JOHNSON W.C. (mil.) '55—$57.5; '56—$53.8	61.3[4]	65.4[4]	5.8	5.1	1.69[4]	1.59[4]	5.38	6.14	1.65	1.65	97 -67¼	89	1.8
MERGENTHALER LINO. W.C. (mil.) '55—$22.4; '56—$25.5	15.3[5]	20.3[5]	8.4	6.4	2.73[5]	2.79[5]	4.51	3.94	2.50	2.50	69¾-44⅝	57	4.3
MINN. MIN. & MFG. W.C. (mil.) '55—$77.7; '56—$82.7	75.6[4]	89.4[4]	11.4	10.9	.52[4]	.58[4]	2.07	2.30	.97	1.20	101 -52½	89	1.3

W.C.—Working capital.
n.a.—Not available.

[1]—9 mos. ended May 31.
[2]—Plus stock.
[3]—5 mos. ended May 31.
[4]—1st Quarter
[5]—6 months ended Mar. 31.

Ferro Corp.: Company is a well managed, aggressive firm in the porcelain industry. It is a major producer of frit. Recent expansion programs have kept costs high, but margins should widen now that most start up costs are out of the way. Second half should be better than the first but full year will probably not exceed last year's earnings. No change in dividend likely. (B-2)

Filtrol: Company is one of the major independent producers of petroleum catalysts. Product development costs are high and earnings are closely tied to industry refinery runs. Outlook for oil industry suggests that earnings will continue well behind last year, but not enough to jeopardize dividend rate. (B-3)

Gillette: The largest producer of razor blades, is also an important cosmetic producer and a leader in the "ball-point" pen field. Higher selling costs have more than offset higher sales. For the rest of the year, sales growth should be only slight, suggesting lower full year net. (B-3)

Glidden Co.: Slower sales of naval stores and paints to the building trades caused slight easing of earnings in first nine months of current fiscal year. Earnings will probably remain just under last year's $3.55 per share, affording ample coverage for the $2.00 dividend. (B-2)

Grace (W. R.): This highly diversified organization has become a major chemical producer in addition to its numerous Latin American interests, steamship lines and banking operations. First half results are not available but indications are that higher revenues will be offset by lower margins leading to moderate earnings drop, but no change in present dividend rate. (B-2)

Halliburton Oil Well Cementing: The company is a major supplier of oil-field services and equipment. Prospects are tied directly to rate of drilling activity in the oil industry. With import restriction now being imposed to buoy crude price level, second half drillings may pick up. Thus earnings may not vary much from last year's despite first half drop. (B-2)

Hershey Chocolate: Company is the recognized leader in its field, but there is little market interest because most of the common is closely held. First quarter results were excellent, but comparisons in the second quarer may suffer from higher sugar and cocoa prices. No change in $3.00 dividend. (A-2)

Hertz Corp.: Company is the largest operator of rented vehicle services. Growth has been excellent in last few years, and earnings improvement should continue through balance of the year. However, an adverse tax ruling may cut final figures considerably, but dividend should not be affected. (B-1)

International Salt: International is the top producer of rock salt for industrial and commercial use. Company's record is good, but earnings this year may not quite match last year's. No change in dividends. (B-2)

Johnson & Johnson: Company is a leading manufacturer of surgical dressings and baby-care products. Recent developments indicate that company may become an important member of the drug field as well. Little change is expected from the first quarter picture, although full year results should compare favorably with last year. (B-2)

Mergenthaler Linotype: First half results bettered last years showing but for the full year margins may be adversely affected by lower margin defense business. Overall record of the company is good, but operations generally are subject to general cyclical influences. The $2.50 dividend is secure. (B-2)

Minnesota Mining & Manufacturing: Company has enjoyed consistent success in developing new products in addition to its basic industrial abrasive lines. Continued year-to-year sales gains are expected, but high costs and mounting research expenditures may narrow margins in second half. Earnings and dividends should not vary much from 1956. (A-2)

RATINGS: (A)—Best Grade.
(B)—Good Grade.
(C)—Speculative.
(D)—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

Survey of 36 Unclassified Stocks—(Continued)

	1st 6 Months: Net Sales 1956 (Millions)	Net Sales 1957 (Millions)	Net Profit Margin 1956 %	Net Profit Margin 1957 %	Net Per Share 1956	Net Per Share 1957	Full Year: Earned Per Share 1955	Earned Per Share 1956	Dividend Per Share 1956	Dividend Per Share Indicated 1957	Price Range 1956-57	Recent Price	Div. Yield %
NATIONAL LEAD .... W.C. (mil.) '55—$113.1; '56—$117.4	$289.2	$281.7	10.0%	10.6%	$2.45	$2.49	$4.02	$5.23	$3.25[3]	$3.25	138 -76½	126	2.5%
NATIONAL SUPPLY .... W.C. (mil.) '55—$79.3; '56—$83.7	147.4	155.4	5.4	5.6	2.76	3.00	3.76	5.13	2.00	2.36	51 -23⅞	47	5.0
OUTBRD. MARINE CORP. .... W.C. (mil.) '55—$19.3; '56—$27.1	100.1[4]	116.4[4]	11.0	9.9	1.42[4]	1.49[4]	1.23	1.69	.60	.80	37⅝-13⅜	30	2.6
RHEEM MFG. .... W.C. (mil.) '55—$40.4; '56—$25.5	n.a.	n.a.	n.a.	n.a.	.55	.73	3.[illegible]0	d5.01	1.00	—	37⅛-17¼	18	—
SCOVILL MFG. .... W.C. (mil.) '55—$29.3; '56—$28.0	80.1	67.2	4.1	3.1	2.24	1.23	3.66	2.81	2.25	2.25	33½-29¾	30	7.5
SHEAFFER (W. A.) PEN (A & B) .... W.C. (mil.) '55—$10.0; '56—$10.4	5.9[5]	5.6[5]	8.0	3.9	.29[5]	.13[5]	1.25	1.34	.90	.90	13 -10	10	9.0
SIMMONS CO. .... W.C. (mil.) '55—$41.8; '56—$41.0	70.0	66.1	4.4	3.7	2.49	2.11	5.31	5.17	3.10	3.10	59½-42¼	43	7.2
SPENCER KELLOGG .... W.C. (mil.) '55—$20.1; '56—$21.0	63.7[1]	73.2[2]	1.3[1]	1.0[2]	.70[1]	.85[2]	.27	.96	.80	.80	24¼-15⅜	16	5.0
UNITED FRUIT .... W.C. (mil.) '55—$62.0; ''56—$49.0	n.a.	n.a.	n.a.	n.a.	2.00	2.09	3.82	3.45	3.00	3.00	55 -42	42	7.1
VANAD. CORP. OF AMER. .... W.C. (mil.) '55—$19.4; '56—$23.5	33.1	29.2	9.8	8.4	2.58	1.97	4.65	4.72	2.00	2.00	55⅜-38¼	43	4.6
WESTERN UNION .... W.C. (mil.)'55—$28.9; ''56—$30.4	123.2	131.2	5.4	4.7	1.07	1.00	2.10	2.21	1.00	1.00	22½-17½	18	5.5
WRIGLEY (WM.) JR. CO. .... W.C. (mil.) '55—$49.5; '56—$51.3	44.8	46.1	12.8	12.2	2.93	2.87	5.91	5.67	5.00	5.00	98¾-82	83	6.0

n.a.—Not available.
W.C.—Working capital.
d—Deficit.

1—36 weeks, May 5, 56.
2—39 weeks, May 25, 57.
3—Plus stock.

4—9 months ended June 30.
5—1st Quarter.

National Lead: Company has been an outstanding growth organization in the postwar period. Sales drop in the second quarter reflects lower activity in the building trades and slow downs in the Doehler-Jarvis division. Nevertheless, increased efficiency cut costs and raised net slightly above a year ago. Dividend should remain at $3.25. (A-2)

National Supply: Company is the largest of the oil and gas field equipment producers. Company also performs valuable engineering services. Postwar record is outstanding, but clouded picture for the oil industry may retard earnings in the second half. Growth prospects are good, however. Dividends should remain undisturbed. (B-2)

Outboard Marine: Sales continue upward but margins are being squeezed. Nevertheless, earnings scored small advance in first nine months. Current dividend should be maintained. (B-2)

Rheem Manufacturing: Loss of basic markets have not yet been compensated for in new operations. Worst days seem behind the company, but with start up costs still high on new operations, there seems little likelihood of an early resumption of dividends. (C-3)

Scovill Mfg.: Company has paid dividends for a century, but current prospects make improvement doubtful. Full year earnings should be below last year's $2.1 per share, placing some doubt on the 25c extra payment. (B-3)

Shaeffer (W. A.) Pen: With competitive conditions keen, and selling costs mounting, the lower earnings trend of the first quarter seems likely to continue. Dividend should be covered but by bare margins. (C-3)

Simmon Co.: Lower sales and earnings seem in view for this major producer of bedding: Greater geographic representation should benefit the company over the long run. No change seen in dividends. (B-3)

Spencer Kellogg: Lack of diversification makes the company subject to sharp and sudden changes in the volatile vegetable oils and products field. No change in dividend likely as full year results will probably approximate those of a year ago. (D-2)

United Fruit: With political conditions more favorable in Central America, and steady market assured for bananas, full year results should better last year's. Nevertheless, pending litigation limits the stock's appeal. The $3.00 dividend rate will continue. (B-1)

Vanadium Corp. of America: Lower levels of operations in the steel industry have led to lower earnings and sales in the first half. Full year results will trail 1956 but the $2.00 dividend should not be disturbed. (B-3)

Western Union: Higher operating costs continue to beset the company despite steady revenue increases. Long term outlook is good as private wire systems and facsimile expand, but lower earnings seem likely for this year. The regular $1.00 dividend should be continued. (B-3)

Wrigley (Wm.) Jr. Co.: Major member of the chewing gum industry, sales should continue their year to year betterment. Higher selling costs and raw material prices, may keep full year earnings below those of a year ago, however. The $5.00 dividend will be more than amply covered, although no upward revision is expected. (A-2)

RATINGS: (A)—Best Grade.
(B)—Good Grade.
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FOR PROFIT AND INCOME

Trouble

The trouble with the market is that too many stocks now have something the matter with them either on the positive or negative side. It may be one or more of the following: price too high; earnings disappointing or no better than had been expected; prospects uncertain or poor; yields too low or otherwise unattractive relative to bond yields. The market appears to need at least more technical correction. It could be more than "technical" if the previously hoped for fourth-quarter business upturn does not develop. Good income is offered by bonds, preferred stocks and many stable-dividend common stocks – but profit-making opportunities are scarce. Long-pull potentials in selected stocks no doubt remain promising. On a medium-term perspective, however, more emphasis should be put on the conservation of capital.

Growth?

Here are sobering earnings comparisons on a few "growth" stocks: Outboard Marine nine months to June 30 $1.49 a share versus $1.42 a year earlier; Eastman Kodak first half $2.09 against $2; Pfizer first half $1.85 against $1.77; Minneapolis-Honeywell first half $1.56 against $1.46; Reynolds Metals for the half $1.60 versus $2.21; National Lead first half $2.49 against $2.45; McGraw-Hill for the half $1.32 versus $1.25; and Dow Chemical for the year to May 31 $2.15 against $2.52. Others could be cited. Regardless of long-range prospects, all of these stocks have outrun earnings for the time being.

Risk In Selling

In the case of a basically fine stock–National Lead for instance –a good case can be made out for staying with long-pull holdings and for continuous dollar-averaging accumulation. The risk of losing position, by selling on possibly falible judgment that the stock's price is too high, is undeniable. But those who invest for profit on other than a dollar-averaging system must in any event take risks both in buying and selling. Those who can afford to take buying risks can also afford to take risks on the selling side. Our judgment is that the selling risk

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1957	1956
General Tire & Rubber	6 mos. May 31	$3.36	$2.41
Western Maryland Rwy.	6 mos. June 30	6.47	4.78
Rockwell Spring & Axle	Quar. June 30	.86	.65
Basic, Incorporated	6 mos. June 30	1.11	1.02
New York Air Brake	6 mos. June 30	1.82	1.59
Parke, Davis & Co.	Quar. June 30	1.12	.90
Cream of Wheat Corp.	6 mos. June 30	.30	.20
Revlon, Inc.	6 mos. June 30	1.69	1.45
A C F Industries	Year April 30	6.95	6.08
Atlantic Refining Co.	6 mos. June 30	2.74	2.40

in this issue and in most other over-valued growth stocks — at least to the extent of taking part of profits and writing down investment costs on remaining holdings—is not too great at this time.

Good Sale

Following a spectacular rise from levels at which we previously recommended it, we advised profit taking on Outboard Marine around 36 in our June 22 issue. At this writing it is already down to 30, is still priced around 18 times likely current-year earnings, and could go materially lower . . . McGraw-Hill, now around 48, was repeatedly recommended here at much lower levels. Selling around 15 times probable 1957 earnings it is not seriously over-priced, but neither is it by any means cheap. Our opinion is that, if all or part of profits are cashed here, the stock probably can be bought back to advantage on a substantial sell-off . . . Around 110, Minneapolis-Honeywell is selling at something like 34 times presently indicated annual earning power. The price-times-earnings ratios are around 35 for Minnesota Mining & Mfg., 22 for Eastman Kodak, 24 for National Lead and 28 for Dow Chemical. They are all good stocks —but not that good. Stocks of this type proved considerably more vulnerable than the industrial average at the 1956 high. They could be similarly so now. The average fell a moderate 12.6% from 1956 high to last February's low. In round figures, here are just a few samples of comparable "growth" stock declines: Dow 32%, duPont 26%, Minnesota Mining 23% and Minneapolis-Honeywell 20%. A number of others could be cited, but the point we are making here need not be belabored.

Air Reduction

In our July 20 issue, following an earlier recommendation of Air Reduction and a run-up to 65, we suggested that new buying be deferred, pending a price dip. The stock has now backed down to around 58. It is priced at not much over 11 times presently indicated annual-rate earning power, yielding over 4% on a $2.50 dividend. Payments have risen 150% over the last eight years. Medium-term and longer-range prospects for the company's principal lines (industrial oxygen, acetylene and acetylene chemicals)—are promising. We think the stock is in a sound buying range, but in the present market environment we see no need for hurry. It could react further. One course is to wait and see. Another is to buy it in odd lots on a scale down. There is merit and no great risk in the latter. Nobody can pinpoint the optimum buying level in any stock.

Warner-Lambert

Most drug stocks have had sizable reactions, following large advances. Warner-Lambert is down moderately from high of 68½ to around 64. The basis for good support seems obvious, since the stock is selling for little more than 12 times probable 1957 earnings, yield from the $2.50 dividend is fairly good as drug-stock yields go, and the company's 1958 and long range prospects are promising. The stock might or might not dip further. We are not inclined to quibble about that. The issue strikes us as a sound enough buy now for a holding period of six months or more.

Chrysler

Following publication of first-half earnings of $10.29 a share, which were in line with expectations and which compared with only $2.14 a year ago, Chrysler dipped from recent 1957 high of 82¼ and is around 77 at this writing. With the company's popular cars still selling better than those of competitors, full-year profit could readily be in the range of $14 to $16 a share. Of course, the $64 question is whether the company can hold most of its present position against competition of the General Motors 1958 models. If so, the stock is very substantially under-valued. If not, it is no bargain. Nobody can answer the question with assurance. The "feeling in the seat of our pants" is that G.M. will not find it easy to forge ahead of Chrysler in styling appeal and that the latter's comeback is more than a flash in the pan. What to do? If you own the stock, we say stay with it. Otherwise, our hunch is that venturesome speculative buyers have a better than 50-50 chance for a rewarding profit.

Strong

At this writing the industrial average is still no great distance under its July top, but over-all market performance is more unsatisfactory than the average indicates. Supporting that conclusion, many more stocks are sagging to new 1957 lows than are attaining new highs. The latter are relatively few and confined to secondary stocks, in most of which there is limited interest. Here are some recent examples: American Metal Products, Daystrom, General Baking, Ideal Cement, Magic Chef, Mengel, Winn Dixie, Western Air Lines, Raytheon, Richfield Oil, Pet Milk, Western Auto Supply, New York Air Brake and Shattuck. On the whole, it is an unimpressive list.

Soft

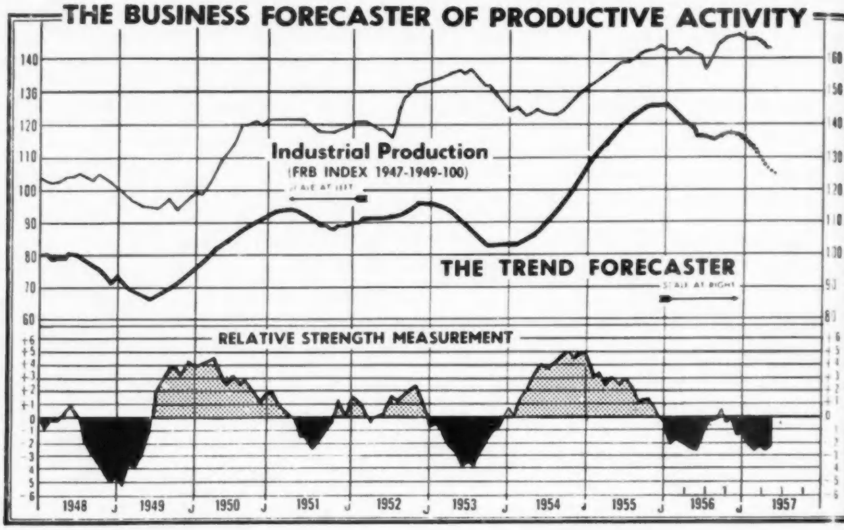
The weaker-than-average issues are fairly numerous and generally more prominent. Some of them are: Allegheny Ludlum Steel, Bucyrus Erie, Cerro de Pasco, Bullard, Consumers Power, Cooper Bessemer, Ex-Cell-O, Hudson Bay Mining, International Nickel, Magma Copper, Boston Edison, Outboard Marine, Bendix Aviation, Congoleum, Crane, Foote Minerals, Howe Sound, Jaeger Machine, Panhandle Eastern Pipe Line, and Northern States Power.

(*Please turn to page* 678)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

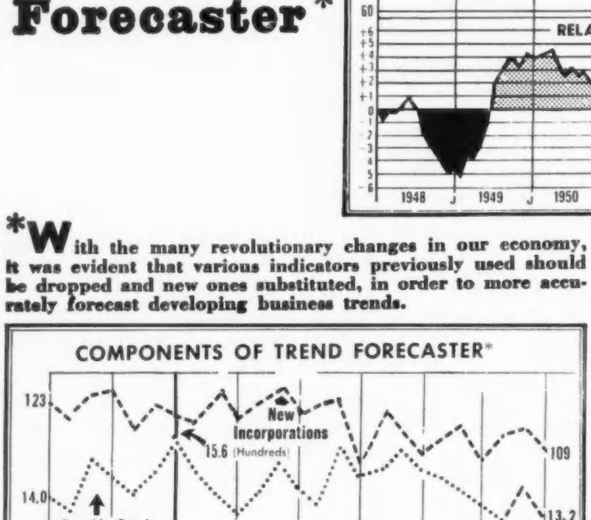
		1957	1956
Jones Laughlin Steel Corp.	Quar. June 30	$1.85	$2.35
Sheaffer (W.A.) Pen Co.	Quar. May 31	.13	.29
Alan Wood Steel Co.	Quar. June 30	.35	.76
Ferro Corp.	6 mos. June 30	1.27	1.88
N. Y. Chic. & St. Louis R.R.	6 mos. June 30	1.67	2.03
Rayonier, Inc.	6 mos. June 30	.71	1.52
American Airlines	6 mos. June 30	.67	1.22
Crucible Steel of Amer.	Quar. June 30	.73	1.21
Johns-Manville	Quar. June 30	.79	1.23
St. Regis Paper Co.	6 mos. June 30	1.25	1.71

the Business A



Business Trend Forecaster*

***W**ith the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.**



*—Seasonally adjusted except stock and commodity prices.
(a)—3 month moving average.

This we have done in our new *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

When the *Forecaster* changes its direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

In June, and apparently continuing into July, the consensus among the components of the **Trend Forecaster** improved somewhat, and trends were a little firmer than earlier in the year.

Commodity prices declined, on average, in July, but held above the May low. Stock prices, after a slight decline in June, rose a little in July. Most other indicators were still declining, going into the third quarter, but the rate of decline had slowed. Business failures, in particular, apparently stabilized by late in the second quarter. Housing starts (as recently revised) declined slightly in June, but were still moderately higher than in March and April. In fact, the second quarter marked the first important interruption in the housing downtrend that began in early 1955.

The **Relative Strength Measurement** continued in the negative zone in June, and doubtless in July as as well. But it has apparently risen from the minus 2.75 trough of March and May. The **Relative Strength Measurement** has been continuously negative for ten months; this is the first postwar occasion on which the measure has remained negative for so long without sinking below the minus 3 level which is indicative of general recession. It continues to suggest further adjustment, although still not signalling a general recession.

Analyst

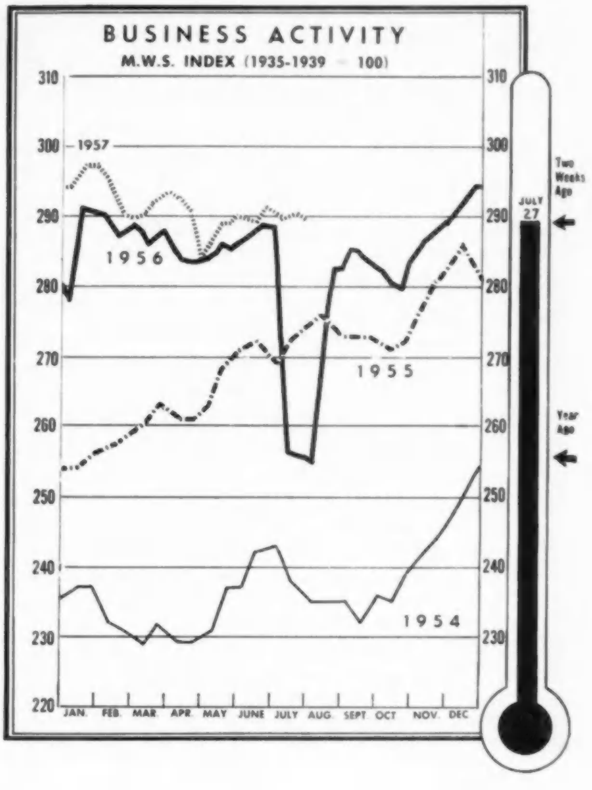
CONCLUSIONS IN BRIEF

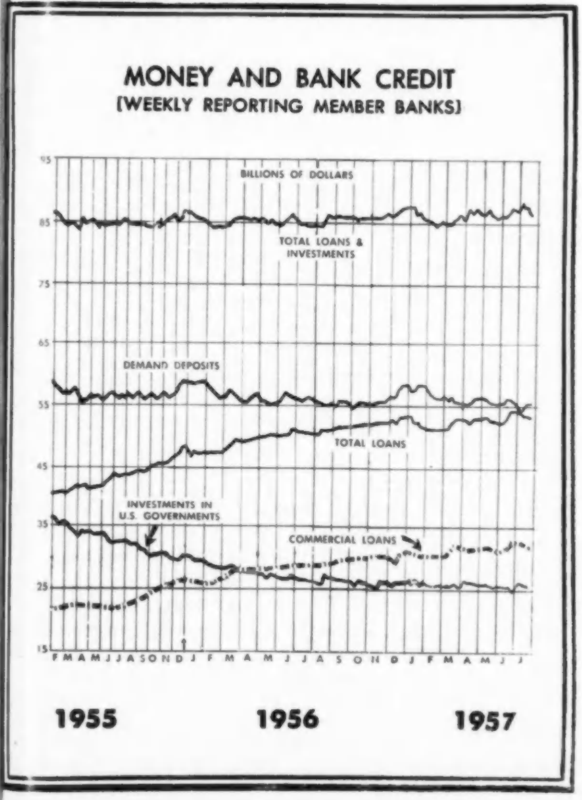
INDUSTRY — Still in the doldrums, owing to summer shutdowns, and generally slack business. Total output and sales still in slow decline, likely to continue into the fall. Steel outlook improving slowly, but largely for seasonal reasons.

TRADE — Sluggish in hard-goods. Auto sales down again, after an encouraging but brief flurry in late June and early July. Department store sales considerably better in July, notably in soft-goods departments. Total trade still moving sideways; to continue so, well into the Fall.

MONEY AND CREDIT — About as tight as it can get. Business is moving into its seasonal borrowing period for inventory accumulation; demand for funds is not likely to slacken before late in the year, at the earliest. At mid-July, yields on Aaa corporate bonds touched 4%; 4-6 months commercial paper was close to 4%. No decline in rates yet in sight.

COMMODITIES — Spot commodities were little changed in July. Industrial commodities are momentarily strong, as a result of the gradual spread of the steel price increase, a further rise in aluminum, and a pending rise in cement. But for the general list of industrial commodities, the price outlook is no better than neutral; several remain in over-supply.





Late last month, the Department of Commerce issued its annual compendium of revised figures on the state of the national economy. This year, the revision contained its usual pleasant surprises: the total output of the economy in 1956, and its present rate of output, now look about $4 billion higher than they looked in the first estimates.

But it is necessary to look at the mouth of this $4-billion gift horse. One of the reasons for the upward revision is that the estimate of the rate of inventory demand was wrong — and wrong on the wrong side, from the point of view of current trend analysis. Originally, it was believed that business stocks rose by about $3.5 billion in 1956; it turns out the rise was about $4.6 billion. And whereas preliminary figures had suggested that inventory actually declined in the first half of 1957, the new figures (some of which are themselves still preliminary) point to a further accumulation.

One obvious lesson in this is to treat preliminary figures on inventory with a little restraint — a little more restraint than was exercised by many business publications. (See Business Analyst pages of this magazine, issue of August 3, pages 606-607, as well as earlier issues, for further comment.) Another lesson is more substantive; **anyone counting on a sudden and sharp renewal of inventory demand late in 1957 had better take another close look at the figures.** As noted here two weeks ago, inventories are not badly out of balance; but neither are they declining so rapidly as to uncover any new demand for shelf stocks in the near future. In fact, the current modest rate of increase is likely to dwindle, rather than accelerate.

(Please turn to following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	June	143	143	141
Durable Goods Mfr.	1947-'9-100	June	160	159	157
Nondurable Goods Mfr.	1947-'9-100	June	130	130	128
Mining	1947-'9-100	June	131	131	129
RETAIL SALES*	$ Billions	May	16.4	16.3	15.9
Durable Goods	$ Billions	May	5.7	5.6	5.4
Nondurable Goods	$ Billions	May	10.7	10.7	10.5
Dep't Store Sales	1947-'9-100	May	124	122	122
MANUFACTURERS'					
New Orders—Total*	$ Billions	June	27.2	28.4	27.9
Durable Goods	$ Billions	June	13.2	14.1	14.2
Nondurable Goods	$ Billions	June	14.0	14.3	13.7
Shipments*	$ Billions	June	28.4	28.6	27.7
Durable Goods	$ Billions	June	14.2	14.3	13.9
Nondurable Goods	$ Billions	June	14.2	14.3	13.8
BUSINESS INVENTORIES, END MO.*	$ Billions	May	89.7	89.3	85.1
Manufacturers'	$ Billions	May	52.8	52.6	48.6
Wholesalers'	$ Billions	May	13.0	13.1	12.7
Retailers'	$ Billions	May	23.9	23.7	23.9
Dept. Store Stocks	1947-'9-100	May	140	141	134
CONSTRUCTION, TOTAL	$ Billions	June	4.4	4.0	4.3
Private	$ Billions	June	3.0	2.8	3.0
Residential	$ Billions	June	1.5	1.4	1.7
All Other	$ Billions	June	1.5	1.4	1.3
Housing Starts*—a	Thousands	June	970	980	1,091
Contract Awards, Residential—b	$ Millions	June	1,155	1,297	1,202
All Other—b	$ Millions	June	2,088	2,103	1,745
EMPLOYMENT					
Total Civilian	Millions	June	66.5	65.2	66.5
Non-Farm	Millions	June	52.7	52.4	52.1
Government	Millions	June	7.3	7.4	7.2
Trade	Millions	June	11.5	11.4	11.2
Factory	Millions	June	12.9	12.9	13.1
Hours Worked	Hours	June	39.9	39.7	40.2
Hourly Earnings	Dollars	June	2.07	2.06	1.97
Weekly Earnings	Dollars	June	82.59	81.78	79.19
PERSONAL INCOME*	$ Billions	June	344	343	327
Wages & Salaries	$ Billions	June	239	238	227
Proprietors' incomes	$ Billions	June	51	51	50
Interest & Dividends	$ Billions	June	31	31	30
Transfer Payments	$ Billions	June	22	22	19
Farm Income	$ Billions	June	16	15	15
CONSUMER PRICES	1947-'9-100	June	120.2	119.6	116.2
Food	1947-'9-100	June	116.2	114.6	113.2
Clothing	1947-'9-100	June	106.6	106.5	104.8
Housing	1947-'9-100	June	125.5	125.3	121.4
MONEY & CREDIT					
All Demand Deposits*	$ Billions	June	107.2	106.6	106.7
Bank Debits*—g	$ Billions	June	77.7	85.4	75.7
Business Loans Outstanding—c	$ Billions	June	32.5	32.5	28.8
Instalment Credit Extended*	$ Billions	June	3.4	3.5	3.0
Instalment Credit Repaid*	$ Billions	June	3.3	3.3	3.0
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	June	11.6	5.3	11.6
Budget Expenditures	$ Billions	June	6.2	5.9	6.9
Defense Expenditures	$ Billions	June	3.8	3.9	4.6
Surplus (Def) cum from 7/1	$ Billions	June	1.6	(0.6)	1.6

PRESENT POSITION AND OUTLOOK

In connection with inventory, it's also worth noting that it is not so much raw materials stocks that are increasing, but finished goods. This suggests that the present accumulation is at least partly involuntary, and may presage a further decline in production rates, in the next few months, in those industries where it is occurring.

* * *

GROSS NATIONAL PRODUCT—The total value of the nation's output of goods and services—ran at an estimated annual rate of $433.5 billion in the second quarter. This is slightly above the first quarter, and about $23 billion above the second quarter of 1956. Note that the rise now represents, almost entirely, rising prices rather than rising physical volume. This is true even though the wholesale commodity price level has stopped rising. The biggest price influence on GNP is consumer prices, since about two-thirds of all output is sold to consumers and priced at the retail level. **On a per capita basis, real output is now somewhat below the level of a year ago; so is the real buying power of per capita personal income. This is not a recession; but neither is it any longer a boom.**

* * *

Speaking of revisions, anyone in the building materials business should be gratified by the new appearance of the government's **CONSTRUCTION** data. They show that annual construction spending is about $2 billion higher than had been thought. The increase is made up of about a $2.5 billion increase in estimates of spending on residential additions and alterations—this is bread and butter for the plywood and residential specialties makers. Offsetting this increase, in part, is a downward revision of the highway spending estimate. But nobody doubts that spending for roadbuilding is in a considerable uptrend for the next several years.

* * *

WAGE RATES AND INFLATION — Thus far in 1957, they spell out a story that should be emblazoned on all company publications. Hourly earnings this summer are running about 10 cents an hour higher than in the same months a year ago. (Actually, the increase in wage rates is greater than this; last summer's figure reflected more time-and-a-half for overtime than is true this summer.) But the real purchasing power of these wages is almost exactly the same as a year ago; the

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1957 II Quarter	1957 I Quarter	1956 IV Quarter	1956 II Quarter
GROSS NATIONAL PRODUCT	433.5(e)	429.1	426.0	410.8
Personal Consumption	277.8(e)	276.7	272.3	265.0
Private Domestic Invest.	64.8(e)	62.7	68.5	65.3
Net Foreign Investment	3.5(e)	4.1	2.4	1.2
Government Purchases	87.3(e)	85.6	82.8	79.3
Federal	51.5(e)	50.3	49.0	46.4
State & Local	35.8(e)	35.3	33.9	32.9
PERSONAL INCOME	342.4(e)	337.7	334.5	325.3
Tax & Nontax Payments	42.7(e)	42.2	40.5	39.5
Disposable Income	299.7(e)	295.5	294.0	285.8
Consumption Expenditures	277.8(e)	276.7	272.3	265.0
Personal Saving—d	21.9(e)	18.9	21.7	20.8
CORPORATE PRE-TAX PROFITS*		43.9	45.6	42.4
Corporate Taxes		22.4	23.3	21.6
Corporate Net Profit		21.5	22.3	20.7
Dividend Payments		12.4	11.5	12.0
Retained Earnings		9.1	10.8	8.8
PLANT & EQUIPMENT OUTLAYS	37.3(e)	36.9	36.5	34.5

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	July 27	289.2	290.2	255.3
MWS Index—per capita*	1935-'9-100	July 27	219.7	220.6	198.1
Steel Production	% of Capacity	Aug. 3	82.2	79.4	16.9
Auto and Truck Production	Thousands	Aug. 3	139	151	141
Paperboard Production	Thousand Tons	July 27	283	265	271
Paperboard New Orders	Thousand Tons	July 27	247	250	242
Electric Power Output*	1947-'49-100	July 27	230.7	233.7	213.0
Freight Carloadings	Thousand Cars	July 27	726	743	650
Engineering Constr. Awards	$ Millions	Aug. 1	401	394	309
Department Store Sales	1947-'9-100	July 27	101	101	97
Demand Deposits—c	$ Billions	July 24	55.6	55.2	56.1
Business Failures	Number	July 27	228	266	274

PRESENT POSITION AND OUTLOOK

increase in the consumer price level has eaten up the entire gain. That leaves the average worker where he was a year ago, EXCEPT that each dollar of his savings now buys about 5% less than it did a year ago. If wages and prices had stayed where they were, he would have been better off. Of course, some workers don't have any savings; it's the saver among the workers who has paid the price for the continuing inflation which has lifted prices 5% in the past year.

* * *

PRODUCTION TRENDS—Here's a roundup at midsummer. Durables as a whole went into the summer in a stable trend. Output of primary metals was falling, and so was output of industrial machinery. But these declines were offset by rising appliance production (reflecting startups on new models) and a slight rise in lumber and wood products. Transportation equipment was in a slight decline, partly reflecting reductions in output of defense equipment. Among soft goods, trends were about stable, with chemical and petroleum products in a very slight uptrend; textiles, apparel, food and beverages slightly weak, and paper products recovering a little from their shallow decline of early 1957. **All in all, a stable picture, but not containing any significant strengths for the future.**

*—Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge, for 48 states. (c)—Weekly reporting member banks. (d) Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau. (na)—Not available. (r)—Revised. (I)—First Quarter.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1957 Range High	1957 Range Low	1957 July 26	1957 Aug. 2
300 Combined Average	346.6	322.3	343.3	339.0
4 Agricultural Implements	282.4	247.1	260.6	257.9
3 Air Cond. ('53 Cl.—100)	122.8	110.2	118.2	114.8
9 Aircraft ('27 Cl.—100)	1388.8	1039.2	1053.4	1039.2L
7 Airlines ('27 Cl.—100)	1002.5	751.9	771.9	782.0
4 Aluminum ('53 Cl.—100)	464.5	375.8	439.2	422.3
6 Amusements	172.6	151.8	156.2	156.2
9 Automobile Accessories	384.4	341.7	380.8	377.3
6 Automobiles	54.3	47.6	52.8	51.4
4 Baking ('26 Cl.—100)	29.7	26.3	28.6	29.7H
3 Business Machines	1285.3	956.2	1244.1	1203.0
6 Chemicals	652.3	556.6	634.3	622.3
4 Coal Mining	25.1	22.3	23.9	23.5
4 Communications	106.0	94.5	104.1	101.2
9 Construction	126.8	118.1	125.5	124.3
7 Containers	799.9	739.5	799.9	792.3
7 Copper Mining	307.6	255.9	258.9	255.9
2 Dairy Products	112.4	103.8	110.2	111.3
6 Department Stores	89.2	80.1	88.4	88.4
5 Drugs-Eth. ('53 Cl.—100)	259.2	175.2	251.9	242.7
6 Elec. Eqp. ('53 Cl.—100)	244.4	215.0	242.1	237.6
2 Finance Companies	584.5	525.0	552.3	557.6
6 Food Brands	280.2	264.0	280.2	277.5
3 Food Stores	182.2	153.8	182.2	182.2

(Nov. 14, 1936 Cl.—100)	1957 Range High	1957 Range Low	1957 July 26	1957 Aug. 2
100 High Priced Stocks	236.9	215.6	234.1	231.0
100 Low Priced Stocks	415.8	387.6	401.1	397.9
4 Gold Mining	726.2	627.2	660.2	660.2
4 Investment Trusts	184.5	166.7	181.2	179.6
3 Liquor ('27 Cl.—100)	1094.5	965.2	1014.9	1014.9
9 Machinery	523.4	477.2	508.0	497.7
3 Mail Order	174.6	157.5	162.6	160.9
4 Meat Packing	142.6	117.4	128.6	127.2
5 Metal Fabr. ('53 Cl.—100)	198.3	175.4	188.8	185.0
10 Metals, Miscellaneous	420.9	376.4	400.7	400.7
4 Paper	1061.1	904.2	987.3	914.4
22 Petroleum	914.4	749.7	881.5	873.2
21 Public Utilities	263.6	251.3	251.3	251.3
7 Railroad Equipment	91.4	82.7	86.1	87.0
20 Railroads	72.7	65.7	69.9	69.2
3 Soft Drinks	509.8	445.5	484.1	484.1
12 Steel & Iron	393.0	330.1	365.5	357.6
4 Sugar	116.9	97.9	114.0	109.3
2 Sulphur	924.7	815.4	899.4	882.6
11 Television ('27 Cl.—100)	36.0	31.6	35.3	34.3
5 Textiles	149.9	124.7	134.5	131.7
3 Tires & Rubber	197.6	164.0	193.9	190.1
5 Tobacco	91.3	87.0	90.4	90.4
2 Variety Stores	273.7	255.6	260.8	255.6L
15 Unclassif'd ('49 Cl.—100)	168.9	153.8	167.4	165.9

H—New High for 1957. L—New Low for 1957.

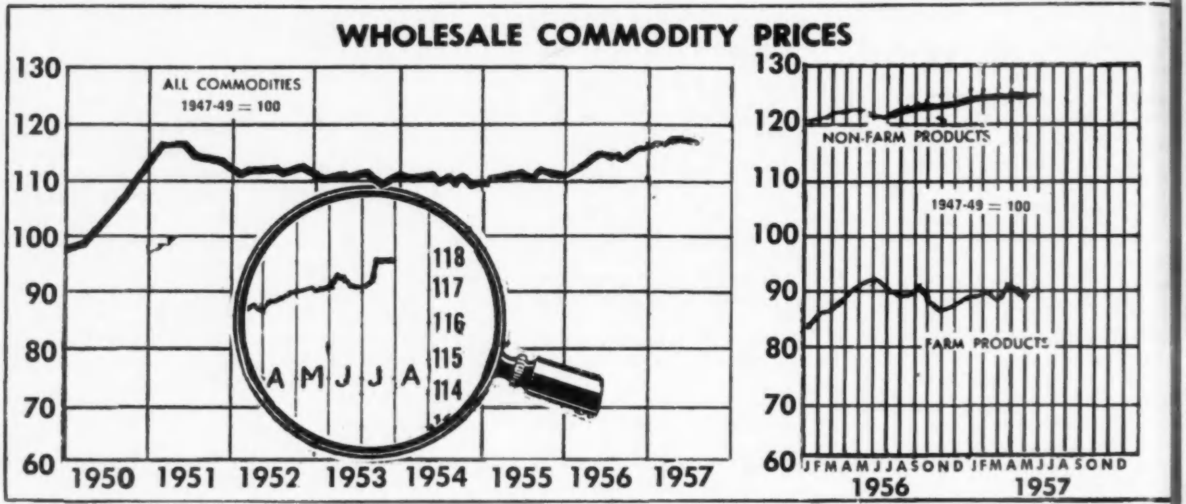
Trend of Commodities

SPOT MARKETS – Most of the active commodities were little changed in the two weeks ending August 2 and the Bureau of Labor Statistics' index of 22 leading commodities held at 90.3% of the 1947-1949 base, the same level as two weeks ago. During the period, the metals component of the index was 1.9% higher, mainly as the result of strength in steel scrap. The raw industrial materials index, which includes metals, textiles and fibers, fats and oils and livestock and products (hides and tallow), was 0.2% higher, reflecting the rise in the metals component.

The Bureau of Labor Statistics' comprehensive weekly index of wholesale prices also remained in the doldrums in the second half of July with the index, on July 30, at 117.9, only slightly under the 118.0 all-time high reached on July 16.

FUTURES MARKETS – Domestic commodity futures were ge erally somewhat lower in the two weeks ending August 2, whi such imports as cocoa and coffee were higher. Rubber had slight advance while world sugar slumped further. The Do Jones Commodity Futures Index lost 1.66 points in the peri under review to close at 159.19, about mid-way between th year's high and low.

Wheat futures were mixed in the two weeks ending August with the nearby September option losing 1 cent while the D cember position was ½ cent higher. Receipts of the bread gra at primary markets have been tapering off, easing some of th pressure from this source. Support has come from the fact th futures are well under 1957 loan levels causing farmers hold back on offerings at this level.



BLS PRICE INDEXES 1947-49—100	Date	Latest Date	2 Wks. Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	July 30	117.9	118.0	114.0	60.2
Farm Products	July 30	92.8	92.7	90.0	51.0
Non-Farm Products	July 30	125.5	125.4	121.4	67.0
22 Basic Commodities	Aug. 2	90.3	90.3	89.9	53.0
9 Foods	Aug. 2	86.4	86.9	82.0	46.5
13 Raw Ind'l. Materials	Aug. 2	92.9	92.7	95.7	58.3
5 Metals	Aug. 2	103.8	102.9	122.3	54.6
4 Textiles	Aug. 2	83.1	83.3	78.2	56.3

MWS SPOT PRICE INDEX

14 RAW MATERIALS

1923-1925 AVERAGE—100

AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

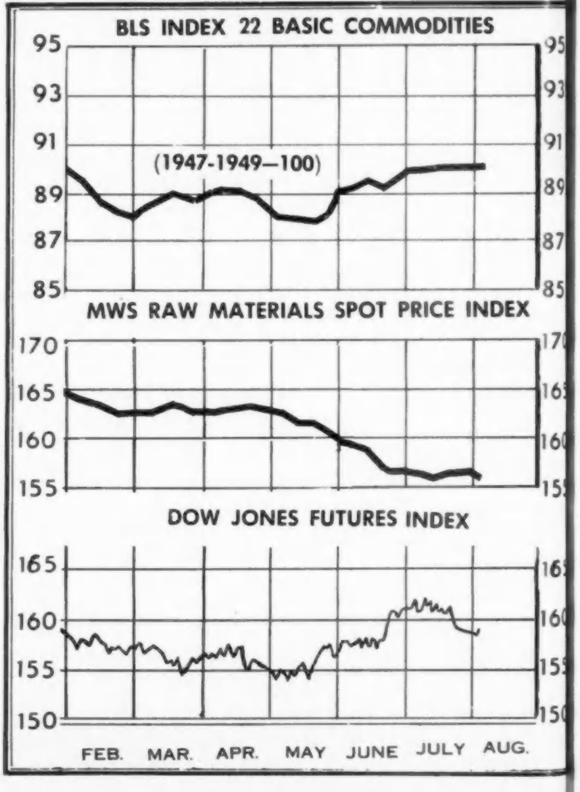
	1957	1956	1953	1951	1945	1941
High of Year	166.3	169.8	162.2	215.4	98.9	85.7
Low of Year	155.7	163.1	147.9	176.4	96.7	74.3
Close of Year		165.5	152.1	180.8	98.5	83.5

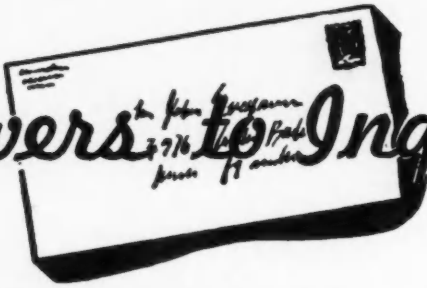
DOW-JONES FUTURES INDEX

12 COMMODITIES

AVERAGE 1924-1926—100

	1957	1956	1953	1951	1945	1941
High of Year	163.4	166.7	166.5	214.5	106.4	84.6
Low of Year	154.5	149.8	153.8	174.8	93.9	55.5
Close of Year		162.7	166.8	189.4	105.9	84.1





Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities at* reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Flintkote Company

"Please report recent operations of Flintkote Co. and indicate any new steps in its expansion program."

T. K., Tulsa, Okla.

Flintkote Co. is a producer of box and paperboard, composition floor coverings, industrial lime, pre-fabricated chimneys, paving and automotive products, and building materials.

Net earnings of The Flintkote Co. and subsidiaries for the first six months of this year rose to $2,528,059, equal after preferred dividend requirements to $1.61 per common share, while sales set a record for the period at $53,830,403.

This compares with net earnings of $2,155,160, or $1.47 a common share, and sales of $50,372,692 in the comparable six-month period last year.

Net earnings per share are based on an average 1,491,834 common shares outstanding in the first-half of this year, as against 1,368,633 shares in the first six months of 1956.

In the second quarter of this year, Flintkote's net rose to $1,584,930, or $1.02 per common share, from a net of $1,377,331, or 95 cents per share, in the comparable period last year. Sales for the second quarter rose to $29,214,487, from $27,064,351. The president of the company indicated that Flintkote's sales for 1957 should reach $120,000,000.

Flintkote does not expect the housing picture to improve materially during the balance of the year primarily due to the tight mortgage money market. However, company expects that the modernization and repair market will continue to be good because of the availability of money and labor for that type of work.

To support the rapidly expanding steel industry in Southern California, Flintkote's subsidiary, United States Lime Products Corp., is expanding its total plant capacity by 20%. This additional production has been sold to the Kaiser Steel Corp.

Further expansion of plant facilities was announced with an approximately $1,000,000 outlay for Flintkote San Leandro, Calif. container plant to meet the added demand created by a change from agricultural wooden shipping containers to corrugated containers. That development has increased demand.

In commenting on the recently proposed Kosmos Portland Cement Company's consolidation, Flintkote's chief executive stated that interest in cement reflects the fact that "cement will be in short supply and this acquisition should give Flintkote an opportunity to supply its own requirements. Flintkote uses cement in a large number of its products. The cement business is profitable in itself."

Current quarterly dividend is 60 cents per share.

Thompson Products

"Please furnish recent sales and earnings of Thompson Products and indicate the outlook over coming months."

A. F., Washington, D. C.

The largest portion of Thompson Products sales in 1956 consisted of aircraft and related parts; next was the automotive, marine equipment and industrial parts; and third was replacement auto parts. Electronic products include coaxial switches, measuring and testing equipment, hi-fi equipment and TV cameras. Company also has a substantial interest in Ramo-Woolridge, a firm active in the Air Force ballistic missile program.

Net sales of Thompson Products, Inc. and subsidiaries in the first six months of 1957 amounted to $196,000,703, a gain of $53,069,592 over sales of $142,931,111 in the same period in 1956. Sales of $99,112,020 in the three-month period ended June 30th, compared with $74,077,150 a year ago.

Sales of aircraft products led the upturn in the first-half of the year, reaching an all-time peak earlier than had been expected, before levelling off, in the course of the second quarter, reflecting the changing pattern of the military aircraft program.

Shipments of automotive products for original equipment use were approximately the same as a year ago, and those for replacement use as well as shipments of unclassified industrial products, ran moderately ahead of the six months volume of a year ago. Original equipment sales, however, were not as high in the second quarter as in the first, reflecting the automobile industry's downward revision in earlier optimistic estimates of this year's new car demand.

Earnings improved substan-

(*Please turn to page* 677)

Keeping Abreast of Corporate Developments

Bristol Myers Co. plans to market a new tranquilizing drug for hospital use known chemically as Phenyltoloxamine. The drug will be withdrawn from present market as an anti-histamine.

Celotex Corp. has opened a $3 million plant at Pittston, Pa., to manufacture mineral fibre acoustical tile for eastern U.S. market. The plant represents part of a $22 million national expansion program.

American Radiator & Standard Sanitary Corp. New Plants: The company has nearly completed new pottery at Plainfield, Conn. Full production is scheduled for early 1958. New $1,800,000, 130,000 sq. ft. valve plant at Stratford, Conn., for Belknap division of Detroit Controls Inc., a subsidiary, began operations in May and operations will begin soon in new Norwood, Mass. plant, engineering and test facility for production of navigation and stabilizing gyros and controls for ships, missiles and aircraft. The completion of Norwood plant will release space in existing plants for expanded production of sensing and recording instruments and control devices. A new plant for Ross Heat Exchanger division is under construction at Buffalo, N. Y.

International Telephone & Telegraph Corp. has opened a new laboratory for testing master mechanical and electrical measuring devices at Federal Telephone & Radio Company's division plant at Clifton, N. J. The laboratory, which contains $500,000 in equipment will supplement and extend services of National Bureau of Standards at Washington, will test and certify measuring devices for private industry, scientific foundations and Governmental agencies and schools.

Sperry Rand Corp. is constructing a $2 million electronic facility for development of advanced radar instrumentation at Clearwater, Florida. This plant, to open late in the year, will employ about 150 persons and contain $1 million of equipment and test facilities.

Sperry Rand Corp. is considering new long-term financing to provide funds for expanding operations. Neither the amount nor form of financing has been decided.

Container Corp. of America's new paperboard mill at Santa Clara, California began operations in June and is expected to produce some profits in the second or third month. The new folding carton factory at Renton, Washington started production April 8. The new corrugated container factory at Dolton (Chicago) will start operations in December. The bleached sulphate mill at Brewton, Alabama will be completed late in 1957. New domestic properties beginning operations in 1957 represent a $42 million investment.

Dow Chemical Co. will begin construction early in 1958 of acrylonitrile plant at Freeport, Texas, and completion is expected by the end of 1958.

Goodyear Tire & Rubber Co. has formed a new Guatemalan subsidiary, Goodyear Rubber Plantations Inc., to develop a 3400 acre rubber plantation in southwest section of Guatemala. Planting of disease resistant hevea trees will begin immediately, it was said, and during the six to seven years required for their maturity, the plantation will conduct experiments in interplanting coffee, corn, rice and other food grains between the rubber trees. Goodyear has other rubber plantations in Sumatra, Brazil, Costa Rica and the Philippines.

W. R. Grace & Co's Davison Chemical Co. Ltd., affiliate of Davison Chemical Co. division, has opened a new $6 million plant at Valleyfield, near Montreal, for production of fluid cracking catalyst for Canadian refineries.

Gulf Oil Corp. announced its intention to enter the field of benzene production with construction to begin this summer of a large benzene plant at its Port Arthur, Texas, refinery, capable of producing approximately 30 million gallons per year.

When the plant is completed, late in 1958, Gulf will become one of the leading suppliers of this important chemical raw material.

Feedstocks for the planned benzene plant will be drawn from Port Arthur (*Please turn to page* 681)

Changes Ahead for Machinery and Tool Makers

(*Continued from page* 655)

Net income rose to $4.02 a share for this interim period from $3.80 a share on a fewer number of shares in the same period last year. In addition, a non-recurring capital gain of 21 cents a share should be added. In all likelihood, results for the year should reach a new peak of $5.60 to $5.75 a share, suggesting favorable consideration of another year-end distribution in stock.

Foster-Wheeler serves a distinctly different market — chiefly large corporations in power generating, petroleum or chemical fields. Large engineering projects account for a major proportion of business. Earnings are expected to show an impressive recovery this year because of better margins prevailing on current contracts. Rising costs had a seriously adverse effect on much of 1956 work taken at fixed prices.

With earnings in the first six months running almost double that for the corresponding period of 1956, when net profit (restated) came to $1.02 a share, it seems likely that still better results may be anticipated for the full year 1957. Backlog of orders has continued to expand this year, reaching an indicated total of almost $375 million at the beginning of July, compared with $364.4 million at the end of March. Bookings on nuclear projects are reported to have expanded encouragingly. The fact that unfilled orders have mounted in the face of increasing shipments is reassuring. Output of boilers for public utilities and for ocean going vessels under construction has expanded. Thus in heavy machinery, a promising trend is to be found.

With the benefit of aggressive management and a strong demand for the company's diversified products, **Gardner-Denver** has fared well this year and appears capable of establishing new high records in sales and earnings. The company serves primarily such industries as construction, oil field and mining. The first named accounts for slightly more than one-quarter of sales and the second slightly less than one-

Changes Ahead for Machinery and Tool Makers

(*Continued from page* 671)

quarter, while mining takes about 20 per cent of shipments. A line of rock drills is offered for the construction industry, and expansion in road building next year should prove stimulating. The company ranks as a leading producer of oil pumps. Net profit this year readily may top the 1956 showing of $4.05 a share and dividends may be continued at the indicated annual rate of $1.80 a share.

Worthington Corporation has broadened its market and greatly strengthened its competitive position in recent years through a series of expansion moves which changed the concern from strictly a pump maker to a producer of a diversified line of heavy machinery. Emphasis has been placed on the manufacture of air-conditioning equipment and power transmission appliances. The company started the year with an exceptionally large backlog of unfilled orders and all indications point to establishment of new records for sales and earnings this year. Volume may climb to $190 million from $170.2 million in 1956, while earnings are being projected at $6.75 to $7 a share, compared with $5.99 for last year. Dividends being paid at an indicated annual rate of $2.50 a share may be supplemented by a year-end extra.

Cincinnatti Milling Machine is the recognized leader in manufacture of machine tools for mass assembly line operations. One of its major customers is the automobile industry. Although shipments have increased sharply this year, results have not proved entirely satisfactory. A substantial volume of business was placed with subcontractors in order to speed deliveries to customers on an exceptionally large backlog at the beginning of 1957. Overtime pay also handicapped profit margins. Incoming business has fallen off sharply in recent months with the result that the backlog has been reduced to a point where capacity operations may be difficult to maintain later in the year unless incoming orders pick up. With the advantage of price increases, margins have improved. Management is hopeful that introduction of 1958 models in the automotive industry may bring in a promising upturn in orders. Moderate improvement in earnings may be achieved this year on record shipments in excess of $150 million. Dividends are expected to be maintained at the current $1.60 annual rate.

Ex-Cell-O Corporation, a producer of high-precision products used largely in the aircraft and automotive industries, also has enjoyed exceptional success in recent years as leading manufacturers have endeavored to trim labor costs through utilization of modern tools. This company's order backlog reached a record high at the end of the March quarter this year and, although incoming business has tapered off in recent months, volume of business on hand remained sufficiently large at the start of the third quarter to suggest that shipments this year may reach an all-time peak. Machine tools account for slightly less than 30 per cent of total business, while so-called precision products account for slightly less than half of shipments. In addition, income is expanding in production and leasing of "Pure-Pak" machines to dairies for packaging milk. Earnings for the year ending November 30 are expected to range slightly above last year's $4.01 a share, affording ample coverage for the indicated $1.50 annual dividend rate.

Among major companies in this group which have fared less satisfactorily this year than optimists had hoped is **National Acme,** a manufacturer of automatic machine tools, screw ma-

chines and electrical specialties. Orders have been in a downtrend and business on hand at the middle of the second quarter appeared adequate only for regular operations carrying through the third quarter. In the absence of information on shipments, it may be surmised that profit margins began to suffer this year from rising costs. In addition, unusual expenditures were planned to finance development of new products. Net profit is being estimated at about $7.50 a share, compared with $8.60 for 1956, while dividend payments are expected to continue at a liberal rate. —END

Prospects for the Building Industry

(Continued from page 651)

significant portion of building materials, such as wallboard, gypsum laths, plaster, etc. In this connection, it may be noted that contracts for apartment buildings and multi-family homes rose in the first half of this year by 26 per cent over the same months of 1956, while work on single-family units dropped—the ratio in the latter classification falling to the lowest figure in many years.

In dollar volume total residential contracts declined in the first half this year about 5 per cent to slightly less than $6.5 billion. In June, however, the drop from a year ago was only 4 per cent, suggesting that a slower pace in the downtrend had been reached. Work on industrial plants shows indications of tapering off, since expenditures on manufacturing buildings registered a drop of 6 per cent in the first half. All indications point to a lower volume this year in new industrial plants.

Heavy engineering projects and school construction are leading the rise in the public works category. Industry surveys indicate that major engineering jobs go far toward accounting for increased volume in building, showing an advance in June of about 25 per cent over the same month of 1956 and a rise of 21 per cent for the first six months as compared with a year ago. Bulk of the expansion is attributed to highway projects started in conjunction with enabling legislation adopted in 1956. Complex engineering problems had delayed authorization of many big road programs. Other engineering projects include new airports, water works and power plants.

Pressure is increasing again for action on proposed schools now that possibility of federal aid appears to have been postponed by Congress. Already, appropriations have increased for educational buildings under state and municipal auspices. Current surveys estimate contracts awarded in June in this category at a figure about 11 per cent above that for the same month a year earlier, while in the first six months the total rose some 5 per cent. Surveys of contracts awards and negotiations indicate that the rate of activity in highway and school construction is rising.

From a review of the most important types of building work, it may be seen that the less promising from the viewpoint of suppliers as well as from an investment standpoint are to be found among concerns serving the residential field. Cement producers appear well situated to experience a rebound from the summer setback arising from labor difficulties. Many large plants were shut down anywhere from a few weeks to more than two months in protracted strikes. As a consequence, unfavorable operating results were recorded in the June quarter and to some extent in the current period. Excessive inventories in the hands of producers and dis-

tributors were reduced to a minimum, however, suggesting a strong demand factor for the remainder of 1957. Upward price revisions in coming months should restore normal margins.

Producers of structural steel also are in a strong competitive position, and brick and tile makers are regarded as reasonably well situated. In adjusting to a sharp drop in one-family dwelling units, manufacturers of heating and plumbing as well as floor coverings and other interior finishes have been confronted with overproduction and keen competition. The outlook for the immediate future is rather drab, but the industry has taken a realistic approach to the situation and seems capable of bringing about a more satisfactory balance by the end of this year.

Summarizing briefly prospects for a diversified group of companies serving a major segment of the economy, the immediate outlook will depend greatly on the extent to which new home-building is stimulated by the recent easing in financing terms. Nevertheless, it may be well to place less emphasis on the evident unfavorable trends and endeavor to weigh possible effects of attempts in Washington and elsewhere to bring about a recovery. There is little doubt but that government officials would like to see a recovery in residential building at least to the extent where annual starts might approximate a million.

In the light of a wide divergence in competitive conditions among leading manufacturers in this group, it is more than ever important to adopt a selective approach in considering representation in this group. The accompanying statistical tabulation and comments should prove helpful in this endeavor —END

Where Will U. S. Stand Under Canada's New Deal?

(*Continued from page* 647)

trade with the U. S. of $1,290,000,000, the greatest in Canada's history."

This situation will be corrected, the "new deal" backers say, and in the process, there will be a direct effort to stimulate more trade with the United Kingdom and other members of the British Commonwealth. In fact, this is the prime objective of a Commonwealth Trade and Economic Conference which the "new deal" is sponsoring, aiming to restore to a maximum extent the British market which has been all but lost by the old regime. The "new deal" backers hold that, while the U. S. market is close at hand, it is uncertain.

In addition, there is a growing resentment in Canada because the U. S. Government has failed to act upon some protests over trade problems following Canadian representations to Washington. Thus, for instance, fresh fruit and vegetable imports into the Canadian market from U. S. far exceed such "fresh" exports by Canada, causing widespread discontent in Canadian farm circles; U. S. "dumping" of some textiles has been alleged, particularly so-called "end of the run" products, spreading resentment in Canadian textile circles; some electrical appliance imports from U. S. have disrupted the Canadian industry, resulting in most voluble criticisms in Canadian electrical circles. There are other instances.

At the same time, Canadians have pressed their Government steadily for retaliation because of obstacles which they alleged were being put in their path whenever efforts were made to increase Canadian exports to the U. S. market, some of these obstacles causing considerable bitterness, because, from the Canadian businessman's viewpoint, these were obviously just red tape or technicalities which did not exist when U. S. exports were made to the Canadian market. This admittedly continuing problem has been a major cause of irritation which has influenced the "new deal" in turning elsewhere for international trade, if possible.

Accuses U. S. of Wheat Dumping

Then again, some U. S. trade policies on the international scene have been bitterly resented where wheat deals are involved because Prime Minister Diefenbaker himself has declared that the U. S. has engaged in "unjust and unfair dumping of agricultural surpluses which is destroying the Canadian farmer's export markets." During the general election campaign, he made much political

capital on this count and, judging from the farmer's vote against the old regime, it can be expected that the "new deal" will take quick and effective action to correct this situation which the new Prime Minister has openly promised on several occasions. The U. S. "fire sales" of crop surpluses are a denial of the General Agreement on Trade and Tarriffs and go far beyond the bounds of fair competition, the Prime Minister says, emphasizing that the U. S. was extremely shortsighted in such policies of "dumping" farm surpluses since this threatens the economies of its own NATO allies. All members of NATO, and particularly the U. S., he claims, must accept the responsibilities for protecting and maintaining the economies of all other members of the alliance.

The New Deal and Commonwealth Preference

Wheat in particular and trade in general comprise the most pressing problems facing the "new deal," with important decisions expected shortly and these bound to be quite important to the U. S., considering that Canada is one of the U. S.' best customers. Any dramatic change in trade trends can bring significant effects to some segments of U. S. industry, top level informants here point out, though they caution that there is some undertone of skepticism about the changes occurring quickly, if at all, in large measure due to the complications of Britain entering a European Free Trade Area scheme; Canada's new Government known to look with disfavour on barter deals or the acceptance of foreign currencies such as sterling; Canada's lack of surpluses for export aside from wheat; Canada's buoyant economy calls for heavy imports of certain goods, machinery and equipment from U. S. in order to become more self-effiicient and keep pace with the nation's economic progress so that these cannot be discontinued, reduced or diverted without serious aftermaths.

Already press comments on the "new deal" plan to transfer about 15% of Canada's purchases from the U. S. to Britain hold little hope of success for this scheme. This lack of enthusiasm in the press is known to reflect public opinion in many parts of Canada, at least for the time being.

While the discussions at the recent British Commonwealth meeting in London were only preliminary and actually only "feelers," there is already considerable opinion that Canada's new Government may be unable to speed such trade changes, nor even provide any large-scale trade diversions without some delay.

Looking Ahead

In the long run, however, it is conceivable that the British Commonwealth, led by Canada's new Government, might bring about some permanent organization which will help to increase the flow of goods between the members as well as the flow of investment. Observers in Ottawa hint that this idea was developed at the recent gathering of Prime Ministers in London. This, of course, would eventually bring higher tariff walls and a redirection of investments to soft currency countries, drifting away from the U. S. sphere. But it must be emphasized that it will take time to develop and will not come overnight, according to top level informants.

When the new session of Canada's Parliament meets in the middle of October, one of the *first moves by the new Government* will be to bring down a so-called "baby-budget" and this *will contain considerable material of direct interest to the U. S.* since it is expected that the "new deal" will show its hand in several ways. It will be unable to implement all its promises, nor even most of them, but some pledges will be carried out, informants say.

Tax Reductions to "Preserve Free Enterprise"

One of the first will be a reduction in taxes because it is no secret that overtaxation was one of the principal reasons why so many Canadians voted against the old regime. In the first ten months of this year Canadians have been allegedly overtaxed $546 million or $33 per person according to "new deal" leaders, *calling the present tax impositions as "confiscatory."* If continued, *such taxes can bring about the end of Canada's system of free enterprise,* said Prime Minister Diefenbaker. Of course, such tax

Studies of Oils and Aircrafts

See our next issue

Where Will U. S. Stand Under Canada's New Deal?

(*Continued from page* 675)

cuts could be beneficial to many U. S. companies operating in Canada through subsidiaries, affiliates, etc. Another early move will be raising old age pensions, pay to veterans and civil servants, etc., all increasing the social security payments as well as raising the amount of money in circulation. This means a potential increase in purchasing power.

Contemplated Monetary Aid

Other changes definitely in the cards under the "new deal" will be easing the present credit system and the tight money policy will undergo a moderate revision that will help all business, big and small, particularly the latter; a federal, provincial and municipal conference is slated to be called to halt the present trend to centralization of power in Ottawa and to change the whole taxation structure so that the provinces and municipalities may get a larger share of the taxpayer's dollar, with this bound to affect present borrowing by Canadian provincial and municipal governments in the U. S., a trend which many Canadian authorities would like to discontinue; a stiffer anti-combine policy appears in the making; small business will definitely get some form of assistance to enable them to compete against big business whether involving manufacturing, wholesaling or retailing, and a special committee will probably be created by the "new deal" for this purpose, composed of members of the Federal Cabinet and representatives of small business associations from all parts of Canada. If any hardships are caused by policies, adjustments could be made promptly through such a small business committee dealing directly with the federal government.

Another major move to which the "new deal" is committed and which may affect U. S. more readily, perhaps, than other immediate actions will be the new Government's policies aimed to assure the Canadian farmer a fair share of the national income by maintaining a flexible price-support program to ensure an adequate parity for agricultural producers based on a fair price-cost relationship. The "new deal" has as its purpose the assurance of a maximum of stability of income to Canadian farmers and this is a basic cornerstone of its program. The Canadian farmer's share of the national income has gone down in the last eight years by some 6% and the costs of goods and services that the farmer has to buy have increased by 20%. In addition, there has been a continuing reduction in the farmer's share of the consumer dollar from 59.3 cents of the dollar to about 50 cents today.

Tough Policy for U. S. A.?

In view of the heavy protest vote by Canadian farmers, there is no doubt that the "new deal" farm policies will hit U. S. with the brunt of its new "tougher policy," particularly because the "new deal" has a rather slim majority in the new Parliament and it will be prodded to do so by the Social Credit and Socialist parties, both of which have fairly important membership in the new House. The "new deal" has a strong protectionist backbone and its leadership is definitely more "sympathetic" to requests for protection from domestic industries than has been witnessed in Ottawa for over two decades. Consequently, not only will the U. S. feel a "tougher policy" in trade in various world markets, particularly in the Commonwealth and other "friendly" areas in which Canada does business, but the U. S. may feel much more the effects from "dumping duties" and other escape clauses exercised by Canada's new Government in shipments into the Canadian market. Already the new Government is warming up in this respect, judging from the quick imposition recently of import controls against U. S. shipments of turkeys and fowl into Canadian market as well as on other food products, such as strawberries.

But these moves are only the beginning, top level informants point out. Unless the U. S. will modify its own surplus disposal program, there will be quick retaliation from the new Government which is committed to bring a better balance of trade between the U. S. and Canada, hinting that Ottawa try to play Washington's own game in import and export domain. It is evident already that Canada's "new deal", by implementing its avowed policies, will bring some of the biggest changes in federal government relations between Ottawa and Washington witnessed in over two decades.

Reasons for Change

However, despite the passionate speeches about "Canada First" policies and even the voluble criticisms of U.S. policies, there is no fundamental, nor widespread anti-Americanism in the rank and file of the "new deal" which came into power in the main because Canadians wanted a change of government after 22 years, because Canadians believed that they were being overtaxed, because Canadians disliked the old regime's steps to combat inflationary pressures, because Canadians favored a better farm program, because Canadians wanted a new deal between the various levels of government, because Canadians wanted the higher social security payments promised by the winning party, and because of other purely domestic reasons.

The people of Canada voted for a change of government because of no anti-American reason and there is no doubt about it. As a top level informant here put it simply and appropriately: "Canadians want to be partners in U.S. operations in Canada and people normally don't want to be partners with people they don't like." —END

Deflation or Inflation? In Commodity Price Trend—Which?

(*Continued from page* 637)

taken effort to establish prices of farm products by fiat. And, it well may be that the unwillingness of Congress to take action now will hasten deflation rather than postpone it.

Industrial Materials

Prices of industrial materials, considered as a whole, have declined slightly in recent months. Supplies are large and still rising

in most instances, while demand has contracted as a result of the "leveling off" in industrial activity.

The fact that producers have made these price increases, in the face of slackening demand, has provided ammunition for those who maintain that we are in an inescapable "wage inflation". The strength of labor, it is asserted, means ever higher hourly wage rates and costs with resultant higher prices, higher national income, and so on. In this connection it is interesting to note that, despite increases in hourly wage rates, weekly factory pay has not been rising since the number of hours worked weekly has been declining. Historical analyses reveal clearly that rising hourly wage rates do not necessarily result in rising total personal income.

Be that as it may, it is all-important to remember that the price of any commodity—whether "administered" or not—still must operate within the framework of supply and demand. In the face of slackening demand, an administered price can only be maintained by cutting back of production which, since it tends to result in smaller weekly wages plus a certain amount of unemployment, has definite deflationary implications.

In the past, it has not been at all unusual, in fact quite customary, for administered prices to be raised months after the inflationary upsurge in the general price level had topped out and deflation was well under way. The same factors, i.e., rising wage rates, might just as well have been advanced and actually were, to "prove" the "impossibility" of a downturn in the general price structure.

The Fall Test

The coming Fall, in the opinion of some close students of commodity price trends, well may be a severe testing time for commodity prices, particularly for those advanced recently in the face of something less than aggressive demand.

Unquestionably, the majority of recent price markups—both on materials and finished products—have been based on the belief that the current lull in demand is only temporary and that the Fall will bring with it such an upsurge in buying activity all around that there will be no difficulty in maintaining the new, higher price levels.

Analysis of hitherto always reliable "indicators" of business activity fails to reveal any basis for the widely held belief in a business upturn this Fall of greater than seasonal proportions. In fact, the indicators suggest rather clearly that the slow decline in industrial activity of recent months is more likely to be accelerated than reversed. Manufacturers' inventories have continued to rise in the face of declines in new orders and unfilled orders, a state of affairs that certainly is not conducive to stepping up of industrial operations.

Consumer Buying Slows

The dollar volume of consumer buying, as measured by total retail sales, has tended very slightly downward during the past few months, although monthly totals have continued above a year earlier.

When allowance is made for the uptrend in prices, the volume of consumer buying is shown to be no larger than a year ago. As a matter of fact, total retail sales after adjustment for prices, have registered practically no change, month after month, for approximately two years now.

The high level of stability in our economy has been concealed to a great extent by the rising price trend. Retail mechants are well aware of this, no matter how loudly they may proclaim that the outlook is for further gains in sales. They know that the total number of sales, rather than the dollar volume shown by the cash registers, is the real guide.

There has been, of course, a vast amount of price cutting. Without it, the volume never could have been as well maintained. But, retailers cannot continue to operate indefinitely at shrinking margins of profit while costs of operation rise.

The recent semi-official survey of consumer attitudes, revealing a higher degree of caution on the part of the public than at any previous time in the recent postwar period, tends to supplement the evidence furnished by analysis of the retail sales data themselves.

We may be moving much closer to a real testing time for prices than is generally anticipated. The danger signals are up.

Psychological Impacts

For reasons that are far from clear, the psychological impacts of general business showdown and deflationary influences always have come in the early Fall, although statistical analyses equally invariably reveal that the topping out occurred months before.

The failure of business activity to increase in full accordance with seasonal expectations has in the past on a number of occasions touched off much more easiness in the commodity price structure than appeared warranted at the time by the evidence of the statistical data on business activity. In the early Fall, business men appear to be more susceptible to what properly must be called "intuitive panic" than at any other time in the year.

Even though there is nothing in the statistics to suggest anything more than a moderate reversal of the uptrend in the general price level, statistics seldom have told the full story. END

Answers to Inquiries

(*Continued from page* 668)

tially in the first-half of 1957. Net income for the first six months of this year amounted to $8,323,211, compared with $4,861,842 for the same period of 1956 when earnings were affected adversely by factors that were largely overcome later in that year.

Earnings for the first-half of 1957 were equivalent to $2.96 per share on the 2,759,158 shares of common stock outstanding on June 30th, 1957, compared with $1.72 per share on the 2,732,285 common shares outstanding a year earlier.

For the second quarter of 1957, earnings were $4,272,596 compared with $2,727,060 for the comparable quarter of 1956, equal to $1.52 and 97 cents respectively. As of June 30th, 1957, current assets amounted to $147,852,696 and current liabilities, including notes payable to banks, to $110,063,332. Working capital amounted to $37,789,364.

A special meeting of common stock shareholders was called for

Answers to Inquiries

(*Continued from page* 677)

August 9, 1957 for the purpose of taking action on a proposal which will permit the company to issue approximately $20,000,000 of convertible subordinate debentures. Proceeds will be used to provide funds for additional working capital and other general corporate purposes.

Consecutive dividends have been paid since 1936. Quarterly dividends of 35 cents per share have been declared thus far this year.

The outlook over coming months continues favorable. This company continues to offer good long-term growth potentials.

Ray-O-Vac Company

"Please indicate products manufactured by Ray-O-Vac Co. and also recent sales, earnings and outlook."

W. P., Toledo, Ohio

Ray-O-Vac Company is one of the largest manufacturers of dry batteries, as well as industrial safety equipment, molded rubber and plastic products and sunglasses.

Net earnings of the Ray-O-Vac Company for the fiscal year ended March 31, 1957, increased slightly over the same period last year.

Consolidated net sales for the year, including sales of Mayfair Molded Products Corp. since October 1, 1956 and Willson Products Division,manufacturer of industrial safety equipment and sun-glasses, totaled $40,592,088, or a gain of approximately 1.5% over the $39,935,330 sales for the preceding year.

Consistent with the policy of recent years, company again reduced sales to military agencies, such sales approximating 4% of the total volume.

Net earnings, after provision for taxes and charges, came to $1,818,649 equivalent to $1.64 per share on 1,111,168 shares outstanding. This figure compares with 1956 earnings of $1,722,603 or $1.61 per share after adjustment for a 2-for-1 stock split in June 1956, (outstanding shares before the stock split were 535,356). Earnings retained by the company for use in its business were $1,007,298 as compared with $919,667 for the preceding year.

Net sales for the quarter to June 30, 1957 were $8,163,201, net profit $271,845, equal to 24¢ per share on 1,111,243 shares outstanding. This compares with first quarter 1956 sales $8,481,253, net profit $93,307, equal to 17¢ per share on 535,356 shares outstanding a year ago.

Foreign operations contributed 24% to earnings for the year as against 12.5% in the previous year. One highlight of the year was the acquisition of all the outstanding stock, both common and preferred, of Mayfair Molded Products Corp., manufacturer of molded plastic and rubber products. Another was listing the company's stock on the New York Stock Exchange. Trading began on July 5th, 1956.

Ray-O-Vac is now able to distribute its products in more than 100 countries of the Free World. Plan to establish a battery manufacturing plant in Colombia, mentioned in 1956 annual report has been deferred for the present. Ray-O-Vac Co. (Japan), Ltd. is now on a better foundation and the company feels it will be a successful enterprise.

The company feels the results for the year have been encouraging especially in view of the continuing inflationary pressure on both labor and material costs. While this inflationary trend is expected to continue, sales and earnings for the fiscal year 1958 are again expected to be satisfactory.

Current quarterly dividend is 20¢ per share. —END

For Profit and Income

(*Continued from page* 661)

Cigarettes

In our opinion, cigarette stocks have been over-sold, yields are absurdly high and a sizable price recovery is probable from about the present level, even though it may take some time. We reason that the health-scare publicity has reached its peak, will subside and has lost weight with smokers because of several years of repetition. We figure that general adoption of improved filters, and advertising thereof, can change the picture materially, since it has already been proven (in the case of Lorillard's Kent "Micronite") that the right filters can reduce the health hazard very substantially. Trade reports are that sales have held up satisfactorily and that unit consumption for this year as a whole will rise moderately to a new peak. The maximum adverse effect of the health scare on consumption and on the market level of the cigarette stock group was seen as far back as 1954, following publicity on the American Cancer Society's first preliminary report. With selling prices recently raised, good gains in 1957 earnings of most makers seems likely, and some dividends could be raised.

American Tobacco

With benefit of higher prices for about half the year, 1957 net of American Tobacco should be around $8.75 a share, against last year's $7.51. The stock appears low at 71, yielding about 7%.

Reynolds Tobacco "B"

This will be the fourth consecutive year in which earnings of this outstanding cigarette company will rise to a new record level. They should be around $6.75 a share, against 1956's $5.91. *That means that they have more than doubled since the cancer-scare controversy first broke into the news.* The $3.20 dividend, raised successively from $2 since 1953, looks like a good bet to go higher over a reasonable period of time. At 54, the Class "B" stock yields a secure 5.9% and is attractive.

Oils

Under the Administration's new program the international oil companies will "voluntarily" cut their imports by about 10% from the average 1954-1956 levels. They will comply because the alternative is direct, official import controls; and because imports cuts are required, in addition to a hold-down on domestic output, to prevent more serious excess in oil supplies and weakening of the price structure. The international companies are interested in low-cost imports, but also in U.S. prices because they include the biggest domestic refiners and marketers. Pending correction of inventories—and of large prior rise in the shares—neither domestic nor international oil stocks appeal to us for new buying here. Regardless of the import adjustment, the leading

(*Please turn to page* 680)

For Profit and Income

(*Continued from page* 678)

international companies have the best long-range potentials—assuming no Middle East blow-up or expropriation—because they retain the advantage of lower-cost foreign output, because foreign Free-World consumption of oil products is growing at a rate several times faster than the domestic consumption rate, and because of the flexibility inherent in world, rather than single-country, operations.

Box Score

In July, dividends were omitted or reduced by 19 companies, against 13 a year ago. There were 42 increases, against 48 a year ago. On the other hand, the number of extras, at 59, was a little above the year-ago total of 52. Total first-half payments were 3.5% above a year ago. As things look now, the year-end extras are not likely to equal last year's aggregate and the full-year gain in payments might be held to around 3%.

What Second Quarter 1957 Earnings Reports Reveal

(*Continued from Page* 641)

stock, and an important producer of rail equipment raised its margins to 8% from 6.8% a year earlier, and was thus able to advance its earnings to $1.78 for the period from $1.49 a year ago, although the increase in sales was very small.

Industry Majors Do Well

But for most firms lower margins prevail, whether sales increased or not. **B. F. Goodrich,** for example, held sales to approximately last year's levels, but margins slipped a full percentage point under a year ago, dropping earnings to $1.07 per share from $1.28 a year earlier. Tire price increases scheduled to go into effect, may better the second half picture, however.

Air Reduction, a market favorite earlier in the year, and a principal supplier of oxygen products to many industries, is also feeling the labor cost-research and development cost pinch. Sales continue to make new highs, mounting to $46.8 million in the quarter just ended from $43 million last year, but with margins down to 8.3% from 9.4%, net per share receded from $1.12 last year and $1.16 in the first quarter, to $1.02 in the second three month period of this year.

Alcoa combined a sales drop with lower margins to see its earnings recede to 91¢ for the quarter from $1.16 last year. Sales and earnings advanced moderately over first quarter results however, and may improve further as the year progresses, if the industry can make its recent 1¢ per pound price increase stick.

Even the highly touted drug group has its share of weakening margins. Pfizer has already been mentioned, but **American Cyanamid,** one of the best regarded firms in the industry saw a small sales advance more than offset by a drop in margins from 8.5% in the second quarter of last year to $8.3% this year. The drop in net was a moderate 2¢ per share from last year's 51¢, but the decline from the 9.9% first quarter margins indicates that sluggish industrial chemical sales are not being overcome by the buoyant drug market.

That heavy chemical producers are still having their troubles is further illustrated by **Hercules Powder.** Sales improved moderately in the comparable periods, but margins at 7.2% against 8.2% a year earlier caused earnings to drop to 55¢ per share from 62¢ last year.

Growth Stocks Also Having Troubles

A number of recent market favorites are also demonstrating profit margin troubles. **Minneapolis-Honeywell** which has spent much of the year in the rarified price atmosphere was barely able to equal the 77¢ per share earned in the second quarter of 1956, despite a sales advance to $82 million from $66.6 million. Margins, at 6.1% of sales were also lower than the 7% shown in the first quarter of this year.

Outboard Marine, which has been capitalizing heavily on the leisure market, and earlier this year enjoyed a lively spurt when its stock was split, is in much the same boat. Sales were $8 million ahead of the second quarter of last year, but 1½% lower margins reduced net to 69¢ per share from 72¢ a year ago. On the constructive side, however, second quarter margins were decidedly better than the first quarter's 8.2%, which saw earnings drop to 42¢ from 57¢ in the first 1956 period.

American Home Products, and du Pont, however, continued to improve sales, profit margins and earnings. Sales for **American Home** were up almost $10 million from last year's second quarter, margins widened to 12.5% from 12% a year earlier, and net advanced accordingly to $2.52 per share from $2.15. **du Pont** scored a healthy $30 million gain to $505 million over the $475 million of last year's second period. With margins at 20.2% against 19.5% last year net came to $2.18 per share against $1.98 for the same period last year.

Industry Majors Do Well

In addition to U.S. Steel, American Home, du Pont and Westinghouse, other industry leaders performed well. **Reynolds Tobacco** increased its sales from $243 million in last year's second three months to $271 million this year. By holding margins constant, earning advanced to $1.70 per share from $1.53 on the combined A and B stock.

Along with most of the major oils, **Standard Oil of New Jersey** and **Gulf** raised their earnings, although profit margin comparisons are not yet available.

In the food group, Corn Products Refining parlayed an $11 million sales increase and improved margins, to score a 50% gain in earnings, from 31¢ per share in the second quarter of 1956 to 47¢ in this year's period.

And in the laggard airline group, TWA, despite rate difficulties and sharply mounting costs, was able to increase margins from 1.4% to 3.1%, and advance its quarterly earnings from 29¢ per share to 36¢ in the second quarters of 1956 and 1957.

In Part II of this study of Second Quarter earnings which will appear in the next issue, additional companies will be discussed so that our readers will have a clear picture of the earnings and profit margin trends in other important industries, as well. —END

Keeping Abreast of Corporate Developments

(Continued from page 670)

refinery streams, and the finished product is expected to be the highest quality benzene commercially available. The plant also is expected to produce substantial amounts of toluene.

Benzene is a very basic chemical raw material finding its way into a growing number of end products. One major application is its use in the production of styrene, a component of polystyrene plastics used for refrigerator and radio cabinets and in hundreds of varied plastic products. Styrene also is used in the manufacture of synthetic rubber which finds its way into auto tires and other products.

In addition to styrene, benzene is used in the preparation of synthetic detergents, phenol derivatives and lubricating oil additives, insecticides, nylon, drugs and dyes.

The new plant at Port Arthur will consist of a catalytic reformer and a purification unit. The catalytic reformer will utilize a platinum catalyst to convert a hexane-stream to a mixture rich in benzene. The purification unit then employs solvent extraction and distillation to recover the extremely pure benzene from the benzene mixture.

The new venture is part of Gulf's previously announced program to increase and diversify its activities in the petrochemical field. Already a leading producer of ethylene, Gulf's entry into the production and marketing of benzene will make it a major supplier of the two largest volume organic chemical raw materials in use today.

Jones & Laughlin Steel Co. has acquired 2700 acres of land near Houston, Texas as first step in building steel plant to make pipe for oil and gas industries.

Kaiser Aluminum & Chemical Corp. is dividing aluminum operations into five major divisions to enable greater emphasis on sale and production of individual products.

Montgomery Ward & Co. has completed acquisition of a controlling interest in The Fair, which has four Chicago-area department stores, by purchasing 301,000 shares, or 80% of outstanding stock, from the Kresge Foundation, Detroit, for $7,532,500, or $25 a share. Montgomery Ward has offered to buy remaining 70,800 outstanding shares at the same price. This offer expires August 23.

Motorola Inc. plans $3 million, 11,000 sq. ft. addition to Franklin Park, Illinois plant for consumer products and automotive products division. A 120,000 sq. ft. addition to television and hi-fi final assembly will be started in August. —END

The Trend of Events

(Continued from page 629)

The trial made a martyr out of Hoffa. It set him up in a position where one-man control of shipping—land, sea and air—conceivably is within his reach. These were the same people who were demanding earlier this summer that something should be done!

Something, in truth, is being done. But is being done by the labor racketeers. The lawless and reckless element of organized labor has gained a more dangerously powerful position than ever before and its strength is growing, because it is manifest that nobody who is in a position to do so has any clear-cut notion of what should be done.

We are living in an era of lawlessness that is bound to wreck our country unless we do something about it. Thus far, fear of these creatures and their power has stymied the taking of proper steps to eliminate their control and prevent the taking over of this country by gangsters operating in every phase of our daily life.

Having listened to the Becks—and the Hoffas—and the Johnny Dios—and having heard the evidence against them—it is hard to sit by and take it any longer, for daily we see what our casual acceptance of this situation is having on our young—on the teenagers—who now prey on each other instead of playing together; and whose deleterious activities are now menacing the decent standards of our civilization. They are threatening our very rights and our ethical concepts of "live and let live"—and have made it unsafe for us and our children to walk the streets as free human beings should be able to do in the United States of America.

Certainly the time has come to act—to save ourselves and our country. It calls for an angry and belligerent citizenry who will act to preserve law, order and decency—who will not only call upon their elected representatives to enact the kind of laws needed today, but who will also enlist in the crusade to rid the country of dictatorship by gangsters. The first step is to write your congressmen to revise the 5th Amendment to prevent its use as a legal hide-out for criminals.

Let us join together in accomplishing this purpose. We shall be glad to assist to the extent of our power. The time is now. We just cannot shrug this menace off any longer. —END

Stock Market Facing Business Realities

(Continued from page 634)

for air lines, which have been denied a passenger-fare boost and which will therefore remain in a severe profit squeeze for some time to come. It is so of coppers, with no reversal of the metal's present downward price trend yet in sight; of textiles, with chronic over-capacity; of machinery, with the capital-goods boom around its peak in sales and evidently past its peak in new orders. A basis for much rise in the steel group, if any, is hard to see. The building-stock group might come to life in some degree, based on stimulation of housing activity under the more lenient FHA mortgage terms recently put into effect; but no real housing boom is in sight.

In a nutshell, there is no change in our previously expressed view that most growth stocks are too high, that most income stocks will remain stymied by high bond yields for some time ahead, excepting in the minority of cases where dividend boosts could justify a moderate mark-up in present market prices; and that there are too few cyclical stocks with good enough earnings prospects to give the general market any significant uplift. A cautious, discriminating investment policy remains in order. — Monday, August 12. —END

BOOK REVIEWS

World Balance Sheet
By ROBERT R. DOANE

In this global survey, representing findings that have been assembled and correlated over two decades, the author takes inventory of the total resources and wealth of nations today. Land, air, water, people, production, consumption, and money are discussed with concise estimates in tabular form of their existing supply and their rate of depletion.

This work provides essential data for everyone concerned with the allocation of the world's limited and in many cases seriously diminishing supply of natural resources. Acute population problems and continued misuse of these resources indicate, according to the author, that "conservation" must be the battle-cry for the future to counteract unbridled "exploitation."

Among the provocative questions Mr. Doane discusses are: the extent to which war, as a major activity of mankind, has dominated the world economic scene; whether the increase in the population of the world has been a cause or a consequence of economic advance; how adequate are monetary systems for the measurement of wealth?

In the words of the author: "An attempt has here been made to obtain as enlightened a picture of the world we live in as present-day advanced knowledge in the various fields permit. It is against such a background of reality that man's various assumptions, theories, and behavior are now taking place. It is to be hoped that some of these assumptions, theories and beliefs will develop in wisdom as our knowledge increases."

Harper $10.00

The American Economy
By ALVIN H. HANSEN

The greater part of this book consists of six lectures given by the author on the Charles R. Walgreen Foundation at the University of Chicago, May 7–18, 1956. Professor Hansen has added a number of chapters which expand somewhat topics which could not be fully developed in the public lectures. He has also added, as an Appendix, a lecture delivered at the Harvard University Memorial Celebration in honor of Woodrow Wilson.

The author reviews the economic advances of the last generation and shows how they apply to the policy issues of the recent past, the present, and the near future. The reader will find much rich material on the improved techniques for stabilizing and expanding our economy, and on the relevance of Keynesian economics, now an accepted part of economics.

Among the important issues discussed are: the developments of Keynes's thought, the evolution of the President's Council of Economic Advisers, the increased responsibility of government for the economic health of the nation, the relation of rising output and prices, and the inadequacies of monetary against fiscal policy.

The volume as a whole reveals the great advances in economic thinking over a generation and the resultant gains in national stability, investment, growth, productivity, and distribution. No American economist has done more than Professor Hansen to advance and disseminate this part of economics.

McGraw-Hill $5.00

Venezuela: Business and Finances
By RODOLFO LUZARDO

This up-to-date study of the rapidly expanding economy of Venezuela presents a general outline of the principal resources of the country as well as technical analyses of Venezuelan economics. Including a study of living costs and distribution of population, it contains valuable information and statistics for use by financiers, investors and businessmen who are eyeing business opportunities and markets in this unexploited South American country.

Here are surveys of each of the principal industries of Venezuela: oil, coffee, cocoa bean, cattle, sugar, textiles, bananas, and natural resources. The latter, almost untouched, can supply valuable products practically for the asking, such as iron, coal, asphalt, gold, copper, diamonds, pearls, asbestos, mica. magnesite, bauxite, soda ash. Other sources of wealth are the sizable areas of undeveloped farm land, and the vast untapped wealth of forest products. Pertinent data are provided for estimating the potentiality of all these resources.

An examination of the business cycle in Venezuela gives for the first time graphic barometers of net income, production and consumption. Also discussed are the net barter terms of trade, the international balance of payments, and the monetary policy of Venezuela. A special analysis of the years 1946 to 1955 shows how during this time oil production in Venezuela tripled, and how the level of economic activities was raised.

Many original statistical tables and charts of Venezuelan economic factors graphically illustrate and illuminate the expositions of the fascinating opportunities in this country which is just beginning to realize its latent powers.

Prentice-Hall, Inc. $4.95

1957 Financial Post Survey of Industrials

This 31st annual edition of the Survey is a comprehensive manual covering most Canadian industrial and financial concerns.

Companies covered in the Survey number about 1,600 in a wide variety of industries: manufacturing, public utilities, pulp and paper, merchandising, iron and steel, investment trusts and mutual funds, banks, trust and loan companies, and transportation firms.

A Financial Post analysis of the annual reports of 356 Canadian companies showed that combined net profits in 1956 increased 12% from busy 1955. Earnings were down in relation to invested capital, however.

Only two of the 15 main groups showed lower profits – beverages, down 11.6% and lumber, down 3.2%. Biggest improvements were in textiles and merchandising, with net profits up 49.8% and 47%, respectively.

In this volume, the company reviews include earnings statements and balance sheets, working capital position, dividend history, funded debt, head office addresses, subsidiaries and directors. As in previous editions, stock market prices are shown in the eight-year record of the price range of Canadian industrial stocks. All these features add to the book's value as a reference volume.

Financial Post, Toronto $3.00

Sterling and Regional Payments Systems
By J. O. N. PERKINS

Opinions still differ as to whether full convertibility of sterling and other currencies is a desirable or attainable goal of international policy, but for many years ahead the practical outcome is hardly in doubt: we must make the best of a world of limited convertibility, in which the flows of trade and payments depend in greater or lesser degree on the currency arrangements of *groups* of countries. This book looks into the experience of the sterling area and the European Payments Union during the past decade in order to see what lessons can be learned for the future. It is not a historical narrative, but a reasoned analysis of how these international monetary mechanisms have worked and how they might be made to work better.

What economic factors are relevant to a government considering whether it should stay in the sterling area dollar pool or get out? Is there any way of giving member countries of the sterling area a greater incentive to watch the central gold and dollar reserves in framing their own policies? Could some of the features of the European Payments Union be used in a wider system of trade and payments? It is with questions like these that the book is concerned.

Melbourne Univ. Press, N. Y.:
Cambridge Univ. Press $5.50

Business Reports
By CHESTER R. ANDERSON and Others

Designed to meet the need of business for better reports, which present information quickly, clearly, and concisely, this book covers the techniques of both investigation and presentation – from the origin of the commission, through planning, collecting data, organizing, and presenting the final report.

Here, the authors develop one general basic plan that underlies all types of reports—a plan that can be condensed for the short report or expanded for the long one. The book is organized to fit the only logical way to teach report writing – the progression from assignment of memos and short reports to long, formal reports. Examples include student work as well as that from business; the book contains one complete formal report by a student.

McGraw-Hill $6.00

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